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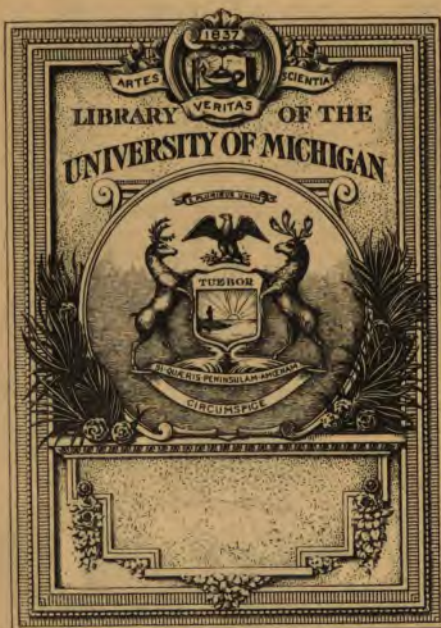
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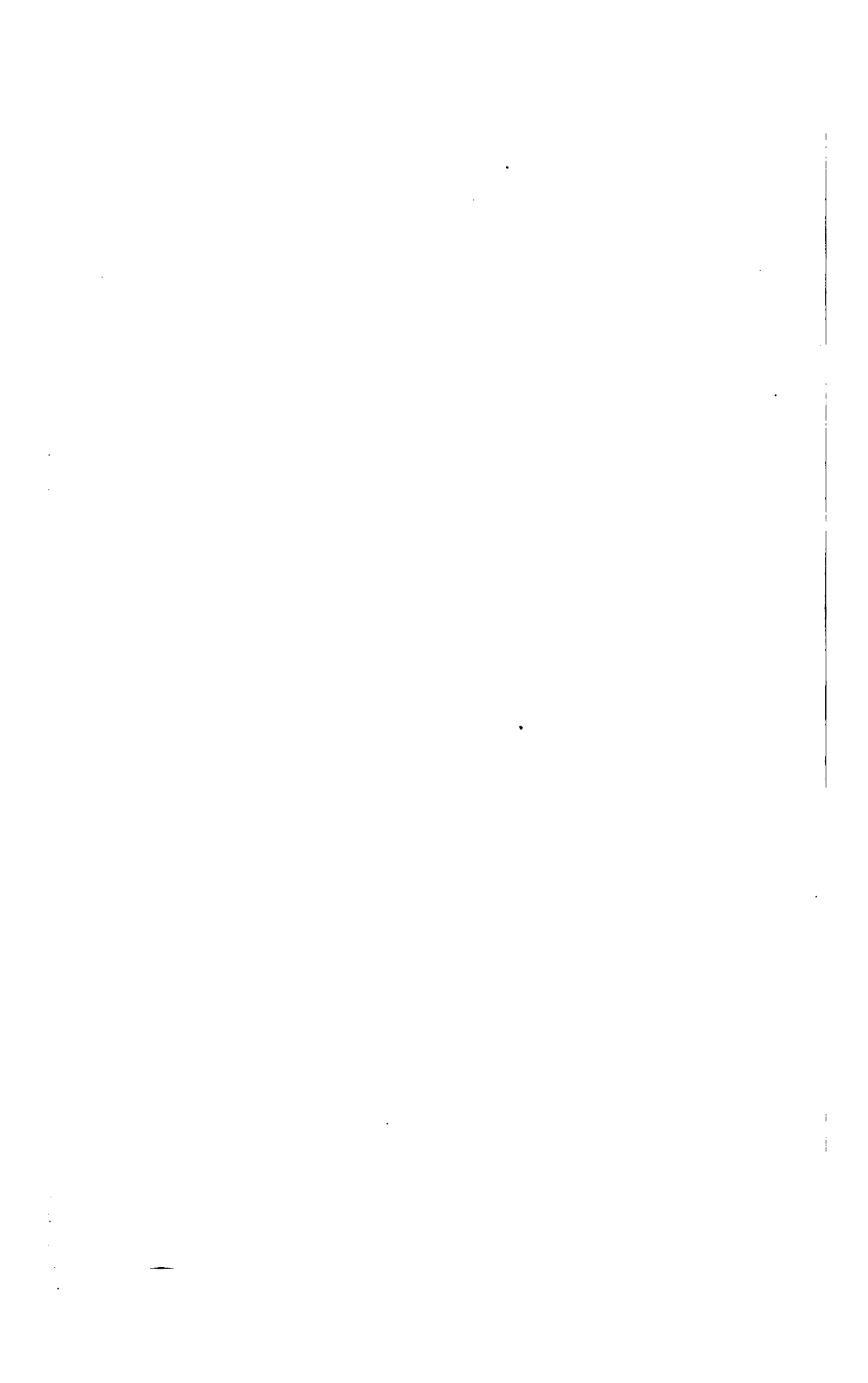
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from the Author ~~with his Pen~~

May 1841.

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**METALLIC,
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CURRENCY.**



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METALLIC,
PAPER, AND CREDIT
CURRENCY,

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AND

THE MEANS OF REGULATING

THEIR

Quantity and Value.



BY
James W. Bosanquet
J. W. BOSANQUET, Esq.

LONDON:

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P R E F A C E.

MUCH of the following treatise appeared in the course of last year, in the form of letters to "The Times," under the signature of "A Lombard." I have since revised and reconsidered the opinions then expressed, and feeling more and more convinced that the prevailing opinions of the day regarding the currency are untenable, I again offer my views in an amended form to the public, for the purpose of furthering the investigation of the subject.

In the beginning of an undertaking it is always well to consider the end. Before, therefore, I enter into the details of the subject, I shall endeavour to give some idea of the main conclusions arrived at in the course of the following pages, and also some outline of the principal points of inquiry to which I would direct attention by the way.

The leading principles and propositions, upon which I would establish the system of currency which I have in view, are these,

- 1st.—That money is the measure of value, and as such should be preserved as free as possible from variation in value.
- 2d.—That money is the medium of exchange, and as such should be provided at all times, in quantity proportioned to the demands of the community for the purposes of exchange.
- 3d.—That the value of money can vary only, from excess or deficiency in quantity; from variation in the value of its standard; or from discredit.
- 4th.—That some principle of self-regulation is required, as a *preventive* against excess or deficiency, in the quantity of money in circulation, interfering with its value.
- 5th.—That forced and sudden variations in the quantity of money in circulation, according to the influx or efflux of bullion, as a *corrective* to excess or deficiency, come too late into operation, and destroy the two first principles, as above.
- 6th.—That the only safe and legitimate mode of regulating the quantity of money in circulation, is by means of the rate of interest.

7th.—That the enforcement of convertibility of notes into specie, at all times, is not absolutely necessary to the preservation of the value of the currency, and, under certain circumstances, causes the value unnecessarily to vary.

In the course of my observations I have endeavoured to show, that the currency of this country is composed, not only of coin and paper, but of coin, paper, and credit combined—credit, in the form of bills of exchange and bankers' deposits, forming a large proportion of the whole; and, as before observed, the first leading principle to be kept in view, in regulating the currency thus composed, is to preserve it as free as possible from variation in value.

Now, setting aside discredit, the currency is liable to alteration in value from either of two causes; first, from excess or deficiency of quantity; second, from variation in the value of gold, which is its standard. It is also exposed to different degrees of action from these disturbing causes, according as the state of trade, commerce, or politics may be calm or agitated.

I will begin, then, by describing the means proposed, for preventing excess or deficiency in quantity

of currency, from interfering with value, dividing the expedients under two heads,—first, those which have reference to internal causes of derangement, and times of calm and quiet; second, those which have reference to external causes of derangement, and periods of panic and disturbance, when the metal portion of the currency becomes liable to violent agitation, and the principle of convertibility is endangered. I will afterwards point out the means proposed, for preserving the currency from the effects of variations in the value of its standard.

With the view of preventing, as far as possible, derangement in the value of the currency, internally, and in ordinary times, from excess or deficiency of quantity, I propose,—

- 1st.—That the securities of the Bank or banks of issue, throughout the country, be so managed, that at all times a large portion of them, fluctuating of course according to the state of demand, shall consist of bills of exchange or securities for loans granted for short periods.
- 2d.—That all advances by the Bank or banks of issue, upon loan or discount, be terminable at furthest in sixty days.
- 3d —That the rate of interest, upon such loans and

discounts be fixed at 5 per cent., except as hereafter provided.

4th.—That all issues of notes by *purchase* of stock or merchandize, excepting only bullion, beyond a certain amount, be prohibited.

5th.—That, upon the above terms, the public have the power of claiming advances upon India-bonds, Exchequer-bills, and all other government securities, at any time and to any amount.

Thus, a constant process of reduction in the quantity of circulation would be kept up, by the falling in of loans and discounts, thereby preventing excess in times of high credit, low rates of interest, and tendency to superabundance; and the possibility of deficiency, in times of discredit and high rate of interest, would be prevented, by allowing the public to supply themselves at all times at 5 per cent. upon tendering undoubted security.

Against pressure, and derangement in the value of the currency, from external causes, and in extraordinary times, I propose,—

1st.—That the Bank or banks of issue be at liberty at any time, under certain penalties, to issue £2 and £3 notes in aid of their reserves of specie.

2d.—That, under further penalties, £1, £2, and £3

notes be declared legal tender at the Bank or banks of issue.

This last expedient is suggested, for the purpose of meeting those extreme cases, which, I believe, would not occur once in twenty years, when the stores of gold at the Bank might become exhausted from sudden rise in the value of gold abroad, owing to some temporary and extraordinary cause of demand; and when, the standard being thereby forced for a moment above its real value, our currency should not be suffered to follow the variation.

The penalties proposed, on the issue of notes under £5 are—

1st.—That after the expiration of one year, from the issue of the first £2 or £3 note, during which year the Bank or banks shall receive the full profit upon such issues, interest at the rate of five per cent. per annum be paid to Government upon all such notes outstanding, calculated day by day, for the first ensuing year, and at the rate of ten per cent. per annum for any period exceeding two years, till public notice be given calling them in.

2d.—That from the date of the issue of the first £1 note, interest at the rate of five per cent. per

annum be paid to Government upon all such issues for the first year, and ten per cent. for any period exceeding one year, till notice as above.

3d.—That the value of all notes under £5, unredeemed six months after notice calling them in, be carried to the account of Government, till presented for payment.

By means of these regulations, founded upon the principles stated, the great object would be attained, of relieving the public from the inconvenience, now so frequent, either of superabundance or deficiency of currency, whatever might be the state of politics, trade, the bullion-market, or the exchanges; and yet the currency, in as far as it is liable to derangement from over-issue or deficiency of quantity, could never vary from the value of its standard, being constantly kept in contact with, and exchangeable for it, excepting only when gold itself should deviate for a moment from its ordinary value. In other words, £3:17:10½ of currency, whether metal, paper, or credit currency, might thus be preserved on a level with the value of the ounce of gold.

But it is not only against deviation in the value of the currency from its standard, by over-issue or

deficiency in quantity, that we have to guard. We have also to provide against temporary deviations of the standard from its own intrinsic value.

We have selected gold, out of all the commodities of the world, as the least fluctuating in value, for the standard measure of our currency. Nevertheless, no one will deny that gold itself, like silk or cotton, is liable from time to time to variation in value, according to the demand for it in the market. The real value of gold, fixed by its cost of production, which will, of course, coincide with its average value in the market, or with that value at which it will always be found to settle when freed from temporary causes of disturbance, fluctuates but slightly over a long course of years; but its market value, is ever varying with every temporary cause of demand abroad, whether it be for the purpose of settling the balance of exchange between different countries, for military purposes, or to pay for extraordinary importations of corn, &c. Now it is gold at its real value, which is comparatively stationary, which ought to be the standard of our currency, not gold at its market value, which is ever varying. It is true, that the extent of the market variation in the value of gold in

Europe of late years has not been great, being limited, perhaps, to two or two-and-a-half per cent., and this limitation is fixed by the law which provides, that gold, shall at all times be supplied by this country to the rest of the world, out of our current money, to any amount, and at a fixed value, viz. that at which it is coined at the Mint. Could our currency, in following its standard, be limited to a variation in value of two or two-and-a-half per cent., we might, perhaps, be content to suffer such a variation without much inconvenience. But the effect upon the value of the currency, of a variation in the value of the standard, is much greater than the extent of that variation. For, in order to bring back the gold, so easily parted with, upon a foreign demand and rise of value abroad, we are compelled at times, as I shall endeavour hereafter to show, to raise the value of the currency at home, above the increased value of gold abroad, so as to produce a voluntary reflux of the metal to this country. The forced and violent measures resorted to for this purpose, (proposed by some to be more stringently applied), are such, as frequently to produce a local agitation in the currency, affecting the merchant to ten or twenty times the extent

of the variation in the value of gold. To free the currency, then, from the effects of such temporary variations in the value of gold is the next important object to be accomplished.

This I propose to do, by allowing gold freely to flow on all occasions of demand, (either at the Mint or market price, as may be decided,) not suffering the efflux, however, to have any immediate effect upon the quantity of currency; and by causing the value of the currency to follow the fluctuations in the value of gold, at a certain reasonable distance, thereby allowing time for all but real and permanent variations in value to subside. Permanent variations in the value of the standard, our currency must of course sooner or later follow. Differing also from those who contend, that the quantity of currency should be always regulated by the state of the exchanges, I maintain that, though the exchanges are the proper test of the value of the currency of one country compared with that of another, when taken over a series of years, yet, being themselves liable to temporary and local influences, they are by no means a sure test of that value at every particular moment.

With the view then of causing the currency to

follow every permanent, and to avoid as far as possible every temporary variation in the value of the standard, I propose,

That after two years' uninterrupted continuance of adverse exchange, with both Paris and Hamburgh, to the extent of one-half per cent., the managers of the currency be at liberty, as long as the exchange so continues, to raise the rate of interest upon their advances to five-and-a-half per cent. for the first six months, and to six per cent. for any period exceeding six months; or after two years' uninterrupted favourable exchange to the same extent, to lower their rate of interest upon advances to four-and-a-half per cent. for the first six months, and to four per cent. for any period exceeding six months.

The only remaining point now to be explained is, the mode in which the requisite supply of bullion, for the ordinary purposes of convertibility of notes into specie, could be obtained under such a system; for, by the first principle, the managers of the currency would be prohibited from so raising the value of the currency at home, above the value of gold abroad, as to produce a voluntary influx of metal for their purposes. To meet this object, therefore, I propose,

Lastly, That, upon granting the above privileges

to the managers of the currency, by which their profits upon issues of paper would be considerably increased, the expense of purchasing occasionally the requisite quantity of bullion, for a generally convertible system of currency, should be thrown upon them. And this expense, I shall endeavour hereafter to show, would be less than that which is incurred under the present system.

If the currency, however, by means of the foregoing system, is to be preserved steadily on a level with the real value of its standard, and the duty of the managers, therefore, is merely to watch the permanent variations in the value of the single commodity gold, it follows, that they must never suffer themselves to be distracted by fluctuations in the prices of other commodities, however great; that no variation in the prices of goods, no disturbance in the balance of trade by extraordinary imports and exports, must for a moment be allowed to interfere with the quantity or value of the currency; but that the prices of goods must be left to regulate themselves. This I maintain they will do as effectually between nation and nation, as they do between different parts of the same country, and different trades in the same country, if left entirely to themselves. If prices of goods rise above the

point at which the same goods may be obtained elsewhere, the competition of the world will soon bring them down, and *vice versâ*; and I hold it, therefore, to be as unnecessary as it is unwise, to attempt to regulate prices, by raising or depressing the quantity of money.

These principles are advanced in opposition to the prevailing opinion of the day, that the currency should be caused to vary in quantity and value exactly as if it were purely metallic, subject to all the temporary fluctuations in the value of gold, at all times and in all places, and that the prices of goods should be raised or depressed, by expanding or contracting the quantity of currency, as the price of gold in the markets at home or abroad, or as adverse or favourable balance of trade, may give it a tendency to flow either in or out of the country. Under such a system we should be exposed, at times, to all the evils of general bankruptcy, with millions of treasure in the Bank, destined perhaps never to be brought into use, and by the free issue of which we might be saved from all difficulty; under such a system too, with the exchanges sometimes at par, sometimes even slightly in favour of the country, and according to theory,

therefore, indicating a currency in any thing but an unsound and depreciated state, we should be subject to the same restrictions, in the amount of issues, as if the currency were unsound and the exchanges actually against us, till the value of gold at home, had been so raised above its value abroad, as to defray the expense of voluntary importation.

The evil consequences to many, of the return to cash payments in 1819, have now nearly come to an end. Those who had contracted debts in depreciated currency, have either discharged them in currency one-third more valuable, or have been ruined in the attempt. For twenty years past, we have reaped the bitter fruits of a long period of previous depreciation and deviation from our standard, but we have at length passed through the trial induced by this act of public faith; and even our National Debt, contracted in depreciated currency, the weight of which debt had become greatly increased by the return to specie payments, being now spread over a wider surface of wealth, is, in fact, lighter than before the change took place. To attempt, therefore, now to return to the level of depreciation which existed during the war, as some propose, would be to subject the creditor to the same severe treatment which

the debtor has been compelled to undergo, and must not be contemplated for a moment. Nevertheless, under the present form of our system of cash payments, both creditor and debtor are periodically exposed to the same evils of appreciation and depreciation in the currency, and through the operation of currency upon credit, to an extent equal, sometimes in the course of a few months, to the whole deviation during the war.

It is from these temporary, but destructive fluctuations that I would propose to free the currency. I have, therefore, suggested the foregoing plan, in accordance with my views, for the consideration of those who have studied the subject; not in the expectation that it will be found even the most perfect mode of carrying out my own ideas, but feeling that he who ventures to disturb the foundations of the fabrics of others, should at least be able to point out some surer foundation, in his own opinion, for a future building; and, moreover, as a challenge has been thrown out, by the advocates of the metallic system, to their opponents, to produce a plan.

The plan suggested, as we have seen, is based upon the principle of convertibility of paper into

specie, (a principle against which it would be in vain at present to contend), allowing only of temporary infractions of this principle, during the violent storms and tempests to which the currency is occasionally exposed. At the same time it is my conviction, that this principle is incapable of being maintained under all circumstances, that its operation is now frequently injurious, and should the period ever arrive of permanent adverse exchange against the country, it must necessarily be abandoned. We are day by day increasing the facility of communication with all parts of the world by steam, and to what extent this facility may be carried in the course of the next half century, considering the rapidity of the operation, it is impossible to calculate: whilst at the same time, capital in this country, produces a much smaller return to its employer, than in any of the new countries with which we are in connexion. Should these causes ever give rise to a simultaneous movement of wealth and population to new countries, on an extensive scale, and amongst the wealthier classes, the beginnings of which may already be observed, on a small scale, and amongst the humbler classes, so that a constant efflux of property should be the result, and there-

fore a constant adverse exchange: should we ever be brought to the same position, by a war similar to the last, causing a constant efflux of wealth for the supply of our armies, and for subsidies to foreign countries, no system of convertibility, combined with freedom of export of coin, can then be maintained: and the only true principle to proceed upon, will be, that of a currency inconvertible into specie, and regulated in quantity, by raising or depressing the rate of interest, according to the average price of gold.

Lastly, I have advocated the system of a single bank of issue, according to an arrangement, however, by which each bank now in existence, may continue to receive exactly the same proportion of the profits of paper issues as it now receives, without injury to any one; and with the advantage to the public, of a uniform system of paper coinage throughout the country, instead of one changing at every twenty miles, issued by rival bodies, jealous of each other, and frequently throwing impediments in the way of each other, to the detriment of the public.

On the whole, the objects proposed, and which I think would be attained by the adoption of the foregoing system of currency are—uniformity of

currency throughout the country—less sudden, less frequent, and less extensive fluctuations in the value of the currency—steadiness and facility in the supply to the public, at all times, and under all circumstances—a bar to that undue depression of the rate of interest, which leads to speculation, and tends to force capital out of the country—and occasional revenue to the government, without burthen to any one, and in times when government is usually in greatest need.

CHAPTER I.

MONEY IS THE MEASURE OF VALUE, AND, AS SUCH,
SHOULD BE PRESERVED AS FREE AS POSSIBLE
FROM VARIATION IN VALUE.

THE period for revision of the Charter of the Bank of England is approaching, and upon one year's notice, given within six months from the 1st of August, 1844, and upon repayment by Parliament of its capital lent to Government, the exclusive privileges of the Bank are liable to be made to cease.

It has long been the impression, both in and out of Parliament, that some new regulations for the management of the currency are required, and a Committee of the House of Commons sat during the two last sessions, for the purpose of collecting evidence upon the subject. The Committee, however, have separated without coming to any distinct conclusions, and on the 15th of June, 1841, merely report, that, "with respect to the great questions involved in their inquiry, they feel that, before the probable termination of this Session of Parliament, it will be impossible

for them to give that consideration, to the many and important points suggested in the evidence already before them, which would enable them to report any well-grounded opinion to the House," ———and "in existing circumstances, your Committee consider, that the only course which they can pursue, is to report the evidence which they have taken, without further observation to the House." Thus, all the important questions under consideration are left quite undecided.

1st.—It has not yet been decided, what constitutes currency or circulating medium, and whether bankers' deposits and bills of exchange are to be included in those terms, and opinions are still much divided upon the question.

2d.—It has not yet been decided, how far expansion and contraction of the currency affect prices; nor whether prices follow and are the effect of, or precede and are the cause of, fluctuations in the amount of currency.

3d.—It has not yet been decided, whether it would be safer and wiser, that the management of the currency should be entrusted to one sole Bank of Issue, or left to the discretion of many rival and independent banks; and on this point the interests of influential parties are at issue.

4th.—It has not yet been decided, upon what principle the currency shall be regulated, when the point of management has been determined. Some would have paper issues free as air, and loosed

from all control. Some would regulate the issues with reference to the indications of the exchanges and supplies of bullion, modifying their system, however, with some regard to the interests and convenience of trade and commerce. Some would reject all consideration for trade and commerce, as beside the question, and would rigidly enforce the principle, of raising or depressing the amount of paper issue, in strict accordance with the working of a system exclusively metallic.

The only point upon which the Committee have formed a decided opinion is, as to "the primary object," as they consider it, "of preserving, under all circumstances, the convertibility of notes;" a principle upon which, however, I shall venture to differ from them, when recommended to be enforced *under all circumstances*; feeling satisfied, that it is not only not necessary, for the purpose of maintaining the value of the currency, so to enforce it, but that it would be destructive, in certain cases, of that purpose, if so enforced.

Every one who takes an interest in these subjects, must have seen the able pamphlets published by Mr. Norman and Mr. Loyd, commenting upon all the above questions, and recommending a very stringent and decided course, with regard to the future management of the currency. As I consider, however, that the doctrines they have advocated are dangerous in their tendency, I propose, with all deference to their great experience and

excellent judgment, to discuss the principles they have advanced, at the same time that I offer my own views for consideration. This I will endeavour to do, by examining each of the foregoing subjects of inquiry in succession, though not in the order there set down.

Let us then begin, by considering the recommendations of Mr. Norman and Mr. Loyd, with regard to the fourth subject of inquiry, viz. the principle upon which paper issues should be regulated, when placed, as they propose, under the control of one Bank of Issue. Nothing can be more simple than the principle they have proposed; and nothing, in my opinion, could be more ruinous in its effects upon the commercial interests of the country, if adopted.

Mr. Norman has stated his views in the following passages. "On the whole, it would seem that a paper currency is perfect, practically speaking, if it be convertible, free from any risk of commercial discredit, and as little liable to political discredit as the peculiar circumstances of the country permit; and if in addition it be *exactly the same in value, at every moment*, as would be the amount of the coin whose place it supplies."* And to carry his views into effect, he proposes that *the amount of bank-notes should "oscillate precisely in the same way as a metallic currency would oscillate did they*

* Letter to Charles Wood, Esq., page 26.

not exist.”* Mr. Loyd has expressed the same opinion in the following passages. “ The one simple duty which the manager of the currency has to perform is, that of making the amount of the paper circulation vary precisely as the amount of the circulation would have varied had it been exclusively metallic.”† “ To attempt to limit the fluctuations of the paper money to narrower bounds than those within which a metallic currency would have oscillated, is an empirical procedure, not founded upon sound principles, and which would lead to none but the most dangerous results.”‡

These are high authorities, and yet I feel that no more pernicious doctrine for the interests of commerce could have been advanced, than that just quoted. It is, in fact, to recommend that the currency should vary in quantity and value, with every fluctuation in the market price of our standard metal abroad, and that all mercantile dealings and prices of goods should be subject to the same fluctuations.

Let us consider, first, the foundation upon which this system is grounded. The principle of the system is very clearly, if not for the first time, laid down by the Bullion Committee of 1810. In the Report of that Committee we find the following passage. “ When the currency consists entirely

* Letter to Charles Wood, Esq., page 84.

† Reflections, &c. page 38.

‡ Ibid. page 51.

of the precious metals, or of paper convertible at will into the precious metals, the natural process of commerce, by establishing exchanges among all the different countries of the world, adjusts in every particular country the proportion of circulating medium to its actual occasions, according to that supply of the precious metals which the mines furnish to the general market of the world. The proportion which is thus adjusted and maintained, by the natural operation of commerce, cannot be adjusted by any human wisdom or skill.”*

The proposal is, therefore, that our mixed currency of metal and paper, being caused to act as if it were exclusively metal, the quantity should be left to adjust itself, according to the laws which regulate the distribution of the precious metals throughout the world.

Now, I do not dispute the truth or soundness of this doctrine in theory, nor do I deny that the precious metals, if left to themselves, would distribute themselves as described. But I do dispute the soundness in practice, of strictly applying this principle, at all times, and without modification, to our mixed and complicated state of currency and trade. Our currency is composed of too many different elements, as I shall hereafter show, ever to be made to act as if it were exclusively metallic; and even if it could be brought so to act, a metallic

* Report of the Bullion Committee, page 24.

currency, I shall show, is itself full of imperfection in its mode of action.

The great ocean of metal throughout the world has, no doubt, a constant tendency to preserve its level of value and distribution in different countries, by seeking always the best market. If metal or its substitute is over-accumulated or deficient in quantity in any one spot, or if its local value is raised or depressed above or below its value in other places, it will be sure to find a channel of entrance or exit for itself, by which the equilibrium will be restored. But it is also true, that the process by which the equilibrium is ultimately adjusted, is often irregular in its operation, and highly injurious in its effects. Let us then examine some of the objections against the practical operation of this theory.

My first objection is, that the practical operation of the theory is rude, abrupt, and ill adapted to our artificial state of commerce and credit.

The discovery of the doctrine of the distribution of the precious metals throughout the world, and the mode in which currencies composed of the precious metals, adjust themselves in due proportion in different countries, as laid down by the Bullion Committee, was certainly a great advance in the science of money : and the general impression still prevails, that no greater degree of perfection can be attained in our currency, than by putting the prin-

ciples of that doctrine into strict practice. To leave the currency, however, to adjust itself, as if it were metal, according to the natural laws of commerce, appears to me, to be bringing our system to about the same degree of perfection, to which the chronometer and the steam-engine had been brought, when the one had arrived, merely at the adjustment of the balance-wheel to the main-spring, without the contrivances now provided for neutralizing the effects of variations in temperature, and the other, at the application of the newly-discovered moving power to machinery, without that beautiful principle of self-regulation now added, by which the speed of the machine is equalized and controlled. I mean to say, that the system arising out of the doctrine above laid down, though perfectly true and sound in theory, will require to be much modified and improved in smoothness and easiness of action, before it can be applied with safety to our complex and artificial state of commerce and credit. For, if left to act without modification and without control, our currency would be subject to all the local and temporary influences which affect the market value of gold, and its action could never be brought to a greater degree of perfection, than the action of the chronometer, without its "compensation balance," or of the steam-engine without its "governor."

The equilibrium, in the distribution of metal, may be adjusting itself in most perfect conformity with

the natural process of commerce, by flux and reflux of gold between contending markets, whilst, at the same time, the commerce and trade of the country, if caused to partake in the agitation, may be sacrificed and torn to pieces in the struggle. I am not one of those, who attribute all disasters in the affairs of commerce to the state of the currency : but yet I feel convinced, that the trade and credit of this country are liable to be brought into that unsound, unwholesome, and I may say corrupt state, from their own irregularities, as, at times, to require the application of the most tender and skilful hand, to reduce them within bounds of security : and it is when in this state, that the uncontrolled operation of a system of currency, oscillating as if it were metal, and according to the natural process of commerce, is so dangerous. A sudden contraction of currency, at such moments, might bring the whole commercial fabric to the ground. Between the summer of 1830 and the spring of 1832, £7,000,000 of gold had left the Bank, in the natural course of commerce, owing chiefly to revolutions in France and Belgium, and political alarm at home during the passing of the Reform-Bill. About £7,382,000* of gold was provided by the Bank in 1838 and

* Between December 18, 1838, and September 10, 1839, the
 drain on the Bank was..... £7,382,000
 Credits made use of on Paris and Hamburg 2,900,000

£10,282,000

1839, by the same natural process, in consequence of the large importation of corn in those years. But had the attempt been made, in either of those cases, to have reduced the quantity of our currency to the same extent, no one can doubt that very little trade or credit would have continued to exist in the country. I repeat, then, that to cause the currency to vary in quantity as it would vary were it exclusively metallic, in practice, would be a system rude, abrupt, and ill-adapted to our artificial state of commerce and credit.

Secondly, I object to this system, that it would cause us to retrograde in the scale of improvement, and deprive the currency of advantages which, according to the best authority, it already possesses.

To propose, "that the amount of paper circulation should vary precisely as the amount would have varied had it been exclusively metallic," is to assume, that a purely metallic currency is the most perfect model of a currency which can be conceived. But is this an admitted point? Colonel Torrens has indeed stated, that "it is universally admitted, by persons acquainted with monetary science, that paper money should be so regulated, as to keep the medium of exchange, of which it forms a part, in the same state, with regard to amount and to value, in which the medium of exchange would exist, were the circulating portion of it purely metallic."* He was probably not

* Letter to Lord Melbourne.

aware, however, that the late Mr. Ricardo, the highest authority, perhaps, on these subjects of recent days, had expressed himself thus, “ Amongst *the advantages of a paper over a metallic circulation*, may be reckoned as not the least, the facility with which it may be altered in quantity, as the wants of commerce and temporary circumstances may require, enabling the desirable object of keeping money at an uniform value to be, as far as it is otherwise practicable, securely and cheaply attained.”*

Mr. Ricardo’s opinion is here in direct opposition to those of Mr. Loyd, Mr. Norman, and Colonel Torrens. He considers, that a paper currency has advantages over a metallic currency, because it may be varied in quantity according to the wants of commerce. They consider, that the quantity should vary according to the influx or efflux of bullion, to the great inconvenience of commerce. He is for preserving money at an uniform value, by means of paper ; they are for constantly altering the value, according to the market price of gold. Authority, therefore, is not universally in favour of this system. We must also agree with Mr. Ricardo, that by the proper use of paper in our system of currency, we are enabled to improve upon the action of a purely metallic currency, both by adapting the quantity of currency to the wants of commerce and

* Proposals for an Economical and Secure Currency, p. 8.

the temporary state of circumstances, and by preserving money at a more uniform value ; advantages which must be thrown away, if we cause paper at all times to act as if it were metal.

Thirdly. Admitting for a moment the perfection of a metallic currency, and assuming that our mixture of paper and metal might be caused to vary in quantity as if it were exclusively metal, still I deny that our currency would, therefore, be regulated according to the action of a metallic currency.

Our currency does not consist of money only, (i. e. coin and paper,) but it is a combination of money and credit in various shapes—credit performing a very considerable proportion of the whole amount of operations ; and credit is of too delicate and sensitive a nature, to follow with any degree of regularity the fluctuations of coin and paper. At one time credit is sound, and, therefore, immoveable amidst considerable alterations in the amount of money ; at another, a slight contraction in the quantity of money, will produce an effect upon a sensitive and unsound state of credit, by no means proportioned to the cause. The object of the contraction may be, to effect a variation in the value of the currency to the extent of, perhaps, one or two per cent., in consequence of a variation in the exchanges to that extent ; but, in attempting to effect this purpose through the medium of credit, a variation

equivalent to the merchant, whose goods are forced to market, of 50 per cent. is frequently effected. It is a false expectation to suppose, that the prices of commodities can be duly regulated, and the exchanges raised or depressed, with any degree of nicety, by the mere increase or diminution of coin and paper. Credit must also be affected at the same time, to make the increase or diminution of money operative, and dealing with credit, is dealing with a system beyond control.

Fourthly. I object to this system, because it violates one of the fundamental principles of our currency.

The primary and fundamental principle in our currency is, that the pound sterling being our measure of value, it should be preserved at all times as free as possible from variation in value. The first principle, however, in the system we are examining, is, we find, that the pound sterling should vary in value with every temporary variation in the market value of gold, and consequent influx or efflux of bullion. We have a standard bushel, a standard yard measure, and a standard pound weight, and much care and ingenuity have been exercised, in order to preserve these measures from variation. But the most important measure of all is the pound sterling, and I do not see why the same care and ingenuity should not be applied to preserve that also from variation. What should we say if the bushel measure were made to vary in

size upon every occasion of scarcity of corn, or the yard measure upon every scarcity of cotton goods? It is proposed, however, to alter the value of the pound sterling, upon every derangement which takes place in the monetary affairs, of every country with which we are commercially connected.

The value of money, I have before said, can only vary, either from excess or deficiency of quantity; from variation in the value of its standard; or from discredit. What, then, is the practical operation of this system with regard to these three causes of variation?

With regard to discredit, I have already shown, that the system which would cause the currency to oscillate as if it were metal, would operate occasionally upon the credit portion of the currency, so as to produce a violent and dangerous variation in local value. With regard to excess or deficiency of quantity, the system is chargeable with suffering excess in the currency, and depreciation of value, till the point is reached, when, the prices of goods being raised above their ordinary rate, foreign trade begins to fall off; and, also, if the course of commerce happen to cause an influx of bullion up to that point, with stimulating that excess, by increased issues. It is also chargeable with causing deficiency in quantity, and increased value, sometimes in periods of greatest need; for when credit is shaken and increased issues are required as a substitute, the quantity of currency is forcibly diminished, if

by the course of commerce bullion happens to be leaving the country. Upon the subject of the effect of excess or deficiency of quantity upon the value of the currency, however, I propose to devote a separate chapter hereafter. Let us now consider the operation of the system with regard to variations in the value of the standard.

We are all agreed, that so long as gold is the standard of our currency, the pound sterling must vary in value according to the *permanent* variations in the value of gold. If the mines become more or less productive, if the cost of production, by the discovery of new mines or by improvements in science, be decreased in the course of years, however inconvenient that the standard should have so varied in value, the pound sterling must follow the altered value of that standard. These alterations of value are but gradual, running over a lengthened series of years, and of little practical importance in the operations of commerce from year to year. But the more frequent and sudden alterations in the *temporary* value of gold, arising out of supply and demand, and an infinity of causes having no connexion whatever with their permanent value, which are indicated in the market price of bullion, and in the exchanges with foreign countries, and which occur from year to year, and month to month, are very important, and very inconvenient, if suffered to operate upon the ordinary course of commerce: and these variations the pound sterling need not be caused to follow.

Now the system we are examining proposes to vary the quantity and value of the currency with every temporary variation in the value of gold abroad: and this, I say, is a violation of the first principle in our currency.

By reference to the tables in the Appendix to the Reports of the late Committee on Banks of Issue, it may be seen, that the extreme variation in the market price of gold at Paris, has not exceeded two per cent. for many years past, and the extreme variation in the exchanges between England and France has not exceeded two-and-a-half per cent. during the same time. The slightness of this variation in the market value of gold, is caused in great measure by the fact, that we undertake to supply from our currency any quantity of gold which may be required, for any part of the world, at a certain fixed price, viz. the price at our Mint. We also undertake to receive and coin gold to any amount, at the same fixed price. Were it not for this, the variation in price would be greater. It would be greater in times of war. From this circumstance, however, we are deprived of the means of judging of the real extent of variation at times in the value of gold abroad, and the effect upon our currency is somewhat disguised. Nevertheless, though the variation in market price is thus limited, the effect upon our currency is the same, as if the rise or fall in gold had been suffered to reach its fullest extent: for a variation of one or two per cent. in market value, will produce an efflux of gold to

the extent of seven and ten per cent. on the quantity of the currency.

We parted with gold from the Bank

CAUSES.

Between August 1830 and February 1832 } to the extent of.....	£7,000,000	{ Revolution in France.* Revolution in Belgium. War between Russia and Poland.† Agita- tion concerning the Re- form Bill.‡
Between July 1833 and May 1835 to } the extent of.....	£5,100,000	{ Loans to Spain and Por- tugal. Importation of foreign bonds to a large amount.
Between March 1836 and February 1837 } to the extent of....	£4,100,000	{ Extensive investment in North American secu- rities. State of credit in North America.
Between Dec. 1838 and September 1839 to the extent of....	£7,382,000	{ Extensive importation of foreign corn, owing to the failure of the har- vest of 1838 and 1839.
Credits on Paris and Hamburgh	2,900,000	
	£10,282,000	

Now, if we assume the total amount of the currency of the United Kingdom, including credit

* "In the time when the last crisis was in France they gave 2 per cent. for gold."—*Mr. Rothschild's Evidence*, No. 4845.

† A premium of from 3 to 5 per cent. was paid upon gold at this time.—*Ibid.* No. 4808.

‡ About £1,600,000 of gold withdrawn in a week or ten days.—*Mr. H. Palmer's Evidence*, 1832, No. 745.

currency, to be one hundred millions, we find, that though the extreme variation in the value of gold, and in the exchanges, was limited to $2\frac{1}{2}$ per cent., the quantity of gold withdrawn or required from the Bank, on the above occasions, was to the extent of 4, 5, 7, and 10 per cent. of the whole amount of currency, and on two occasions the variation took place within the short period of twelve months. Now the effect upon the value of the currency, of a variation in quantity strictly in accordance with the quantity of gold withdrawn on these occasions, would have been different according to the state of credit or discredit at the moment. But I may safely say, that a variation to such an extent in the quantity of our currency, within any such limited period, at a moment of discredit, would have caused such a sudden shock to the value of the currency, and in all contracts and mercantile transactions throughout the country, that it could not possibly have been borne. It was not, therefore, attempted. With regard to the drain in 1838-1839, Mr. Horsley Palmer was asked by the Committee, whether the state of trade was such at that time that the Bank might have operated upon it so as to provide for the payment for corn. To which he replied, "I think, within the period that the foreign payment was requisite to be made, they could have taken no measures that could have accomplished that point; I mean, not without a total destruction of credit."*

* Mr. H. Palmer's Evidence, 1840. No. 1474.

These temporary disturbing influences upon the price of gold and the exchanges, which so frequently derange our currency, are thus referred to in the Report of the Bullion Committee. "Your Committee conceive, that the more minute and ordinary fluctuations of exchange are generally referable to the course of our commerce: that political events operating upon the state of trade may often have contributed, as well to the rise, as to the fall of the exchange, and in particular, that the first remarkable depression of it in the beginning of 1809 is to be ascribed, as has been stated in the evidence already quoted, to commercial events arising out of the occupation of the north of Germany by the troops of the French Emperor."* The course of commerce and political events, as disturbing the equilibrium of the exchanges, are here referred to in general terms; but the different ways in which these causes of disturbance operate are innumerable. Wars, loans to foreign countries, commercial panics at home or abroad, hoardings from political panic, emigration, importations of corn, and every disturbance in the state of the currency, credit, and politics of every nation with which we are in commercial connexion, have a tendency to affect the market price of bullion, or the balance of trade, and to occasion export or import, abundance or deficiency

* Bullion Report, p. 16.

of metal, acting, perhaps, in the very opposite direction to the natural course of distribution of the precious metals which would otherwise take place.

Is it necessary that we should subject ourselves, as the system we are considering proposes, to all the fluctuations in the currency which would result from a temporary demand for the precious metals to meet all these causes of local pressure? I think not.

The miller would tell us, that he is liable to the same casualties in his dam. Sometimes rain and plentiful supply of water, sometimes drought and deficiency. The mode of meeting his difficulties is, by making his reservoir sufficiently large for all cases which can occur, and his mill proceeds in the even tenour of its course, without reference to rain or drought. It would seem that if the reservoir for gold in the Bank were sufficiently large to meet the temporary inflowings and outflowings resulting from the price of gold abroad, or state of the exchanges, we might be enabled to avoid the inconveniences of abundance or deficiency of currency, to which we are so constantly liable. But no, we have supplied ourselves with the reservoir, which, though perhaps hardly capacious enough for all occasions, has never yet been run quite dry; but the improvement proposed is, that a watchman should be appointed to mark its risings and fallings, and that his instructions should be, to retard or hasten the mill in exact accordance, "at every moment," with its fluctuations. This

appears to me to be a mode of wilfully subjecting ourselves to evils, against which we appear already in great measure to have provided.

Let us take a lesson from the miller. As he counteracts, by his reservoir, the temporary inconveniences of abundance or deficiency of water, and proceeds steadily in his operations, trusting to supplies in due season; so let us enlarge our resources, either by increasing our reserves of metal, or by aiding those reserves by the occasional issue of small notes, till we are able to counteract every temporary demand for gold which may be made upon us: and trust to the general market of the precious metals throughout the world, which, if we do not neglect the indications of excess in the currency, will enable us to supply ourselves in abundance with all that we can require for a general system of convertible currency. For gold, like any other commodity, can be procured in the market, in the course of years, at its ordinary price: nor is the market of that limited nature, that a demand for a few millions should permanently affect its value either one way or the other.*

Such is the mode in which I would propose to neutralise the fluctuations which take place in our stores of bullion, without suffering those fluctua-

* Mr. Jacob estimates the quantity of coined and uncoined gold and silver in Europe, Asia, and America, at about 1200 millions.—*Production and Consumption of the Precious Metals*, vol. ii. p. 307.

tions to affect either the quantity or value of our currency. But it may be asked, if no diminution of the quantity of currency, and no increase of value, at home, is to be allowed to take place, upon an efflux of gold owing to its increased value abroad, how is the value of gold at home to be brought to a level with its value abroad? I reply, that the increased value of gold abroad is either permanent, or temporary. If permanent, our currency must in course of time follow it, if temporary, it will subside of itself. I would further propose, therefore, that the value of the currency should be caused to vary, by following the rises and falls in the market value of the standard at such a distance, as to afford time for reaction to take place, and for all but permanent variations to subside.

I will now conclude with the following summary of observations.

- 1st.—That the fundamental principle of our currency is, that the pound sterling is the measure of value, and, as such, should be preserved as free as possible from variation in value.
- 2nd.—That whilst gold is the standard of our currency, the pound sterling must necessarily follow all *permanent* variations in the value of gold.
- 3rd.—That it is a disideratum, to find a mode of relieving the pound sterling from the *temporary* variations in value to which gold is liable.
- 4th.—That the proposed plan of assimilating the

working of the currency to the action of a currency merely metallic, is incompatible with any such improvement; as a metallic currency must necessarily vary in value with every variation in the market price of the metal of which it is composed, thereby destroying the principle of steadiness of value, so essential to the function of money as a measure of value.

5th.—That a simple and practical mode of neutralising the effects upon the currency, of temporary variations in the value of the standard, and of preserving the pound sterling, as nearly as possible, on a level with the real value of gold, would be, first, by allowing gold to flow freely in and out of the country, as far as it can be provided, leaving the quantity of currency unaffected by the operation, and strengthening the power of the Bank or Banks to meet extraordinary demands upon them, either by increasing their reserves of gold, or by allowing the occasional introduction of notes under £5 in aid of their ordinary reserves; secondly, by causing the value of the currency to follow the fluctuations in the market value of gold, at a certain reasonable distance, thereby allowing time for all variations in the value of gold, not of a permanent nature, to subside.

CHAPTER II.

MONEY IS THE MEDIUM OF EXCHANGE, AND, AS SUCH, SHOULD BE PROVIDED AT ALL TIMES, IN QUANTITY PROPORTIONED TO THE DEMANDS OF THE COMMUNITY, FOR THE PURPOSES OF EXCHANGE.

IN the former chapter, I endeavoured to point out, amongst other objections, a radical defect, in the system, which would cause "the amount of paper circulation to vary precisely as the amount of circulation would have varied had it been exclusively metallic," inasmuch as it would tend to destroy the first principle in the regulation of the currency, viz. its steadiness of value as a measure of value. It appeared to me that the principle of the miller's dam was not inapplicable to the management of our supplies of metal, in order to preserve the value of our currency from temporary variation arising out of superabundance or deficiency of metal: that as his mill was dependent upon a steady supply of water for the constancy of its motion, so the currency could not work with regularity of action without a steady supply of metal: that both water and metal being fickle and fitful in

their flow, the principle of a reservoir to neutralize fluctuations was equally applicable to both.

The same illustration will, I think, carry us a step further, and enable us to see clearly another important principle in the currency, as well as another great defect in the system we are examining. The mill, we have observed, is to work without reference to abundance or deficiency of water. But this is not all. It must also be adapted to work with greater or less effect, according to the demands made upon it. At one time it will put in motion one, at another time two, or three wheels, according to the the quantum of work to be performed. So likewise the currency, should not only be steady and free from disturbance, under fluctuations in the supply and value of metal, but capable of expansion and contraction in quantity, according to the state of credit and the demand for currency for the purposes of exchange.

This, I maintain, is the second leading principle in the management of the currency, and as important as the first.

The two principles require to be separated from each other, in treating the subject. The first, has reference to the use of money as a measure of value, the perfection of which is invariability, the second, to the use of money as a representative of value, the quantity of which required at any one time must vary according to circumstances. One set of machinery is required, for counteracting the effects upon the currency of irregularities

in the supply and value of metal, another for adapting the quantity of currency to the demand. The rules for regulating the two departments are perfectly distinct, and often diametrically opposed to each other. A foreign nation may declare war, and proceed to supply the military chest with gold, at any cost, as with Russia in 1828;* or political alarm, as in 1797, and 1832, may cause an abstraction of metal to the extent of millions,† whilst at the same moment, the peculiar state of trade and credit at home, may require an unusual supply of currency. Why should all trade and confidence be disturbed, because the Emperor of Russia goes to war and requires gold? The motions of a foreign army, or political alarm, are no more necessarily connected with the operations of trade at home, than the drying up of the mill-stream with the demands upon the mill. It is a great evil, then, that trade should be disturbed, through the currency, by such extraneous causes; and our sys-

* Mr. Rothschild observes before the Committee of 1832, (4808,) "when the Emperor of Russia made war in Poland lately, gold, which went from Hamburgh to Petersburg and Warsaw, was paying from three to four and five per cent. profit: if five per cent. will not pay it, ten per cent. will be given."

† Political alarm from fear of invasion caused the suspension of cash payments in 1797. Fear of revolution at home in 1832, according to Mr. Palmer, caused a drain of £1,600,000 of treasure in the course of a week or ten days. Several attempts at different times have been made by the Chartists to exhaust the supplies of specie by running upon the Savings' Banks and demanding payment in gold.

tem of currency must remain imperfect, until some mode shall be discovered of preserving its value free from variation, and at the same time apportioning the supply to the demand, without reference to influx or efflux of specie. The variations in the quantity of circulation required at different times are very considerable.

1st.—There is a constant and gradual increase in the amount, keeping pace with the increasing wealth of the country. So that, while the circulation of Bank of England notes was up to the year 1797 about ten or eleven millions, it is now about seventeen or eighteen millions.

2d.—There are great and rapid alterations in the quantity of circulation required, from year to year, arising out of the state of trade and credit, and the vast monetary operations which this country is often suddenly called upon to perform.

3d.—There are periodical variations in the quantity of local circulation, in the course of the same year. In London, the provision for the dividends, and subsequent payments, are the main causes of such fluctuations. In the country circulation of England, Scotland, and Ireland, there appear to be regular periods of ebb and flow, in the quantity required for local purposes.*

To all these different degrees of demand, varying

* Mr. Hobhouse's and Mr. Gilbart's evidence before the Committee of 1841, No. 23, and 917-919.

according to the wants of trade and the community, it would appear, that a power of accommodating itself ought to be provided in our system of currency. In this most important particular, however, the plan of Mr. Norman and Mr. Loyd is deficient; for expansion and contraction of the currency, according to the working of a metallic system, must follow influx and efflux of specie, and these are often exactly in the opposite direction to the wants of trade. Let us take a few instances of sudden demand for increase of currency, by way of illustrating the difference in quantity required at different periods.

“ In the year 1793,” observes the Report of the Bullion Committee, “ distress was occasioned by a failure of confidence in the country circulation, and a consequent pressure upon that of London. The Bank of England did not think it advisable to enlarge their issues to meet this increased demand, and their notes previously issued, circulating less freely in consequence of the alarm that prevailed, proved insufficient for the necessary payments. In this crisis, Parliament applied a remedy, *very similar in its effect to an enlargement of the advances and issues of the Bank*: a loan of Exchequer-bills was authorised to be made to as many mercantile persons, giving good security, as should apply for them, *and the confidence which this measure diffused*, as well as the increased means which it afforded of obtaining bank notes through the sale

of the Exchequer-bills, *speedily relieved the distress both in London and in the country.*"* Here, then, what was equivalent to an *increase* of currency was suddenly called for, and provided, with beneficial effect; at a time, too, when an *efflux* of bullion was going on to an alarming extent.

In 1797, "an alarm of invasion, a run upon the country banks for gold, the failure of some of them, and a run upon the Bank of England, formed a crisis like that of 1793, for which, perhaps, an effectual remedy might have been provided, if the Bank of England had *had courage to extend instead of restricting its accommodations and issues of notes.* Some few persons; it appears from the Report of the Secret Committee of the Lords, were of this opinion at the time: and the late Governor and Deputy-Governor of the Bank stated to your Committee, that they and many of the Directors are now satisfied, from the experience of the year 1797, that *the diminution of these notes in that emergency increased the public distress*: an opinion in the correctness of which your Committee entirely concur."† Thus in this instance also, when *efflux* of gold was proceeding to an extent which ended in the suspension of cash payments, the Committee were of opinion that an *increase* rather than a diminution of notes was required.

There is also a very remarkable instance within

* Report of the Bullion Committee, p. 27.

† Ibid. p. 27.

our own memories, in the year 1825, when, between the 3d and 31st December, the circulation of the Bank of England was increased from £17,477,000 to £25,709,000, or more than £8,000,000 in the course of twenty-eight days. This enormous issue of notes was called for, in consequence of an entire *breaking up of credit*, following upon wild speculation, and the sudden annihilation of country paper, by the suspension of about thirty country banks.* Had this expansion taken place earlier and gradually, even during the efflux of bullion from the Bank which preceded it, much mischief would have been prevented, and many of the banks, without doubt, would have stood their ground, as they ultimately proved to be solvent.

Again, between the 27th December, 1836, and 24th January, 1837, the Bank circulation was *increased* from £16,770,000 to £19,732,000, or about £3,000,000 in twenty-eight days, owing chiefly to the difficulties of the great American houses, and the suspension of the Northern and Central Bank, though the bullion was much reduced in amount.

Here are three instances of commercial discredit, and one of political alarm, accompanied by efflux of gold, calling imperatively for increased issues

* Commissions of Bankruptcy issued against Country Banks.

1825, Oct.	5.	1826, Feb.	10.
Dec.	30.	Mar.	11.
1826, Jan.	12.		

of paper, and in the single instance when supplies were withheld, the result was fatal.

We are, perhaps, not so liable as formerly to discredit in the country issues, under the present improved system of country banks : but it is not only against discredit of local notes that we have to provide.

Want of confidence or discredit of any sort occasions an unusual demand for money. When credit is injured, either by the forced operations of the Bank, or by re-action upon overtrading, goods bought and held by the merchant upon credit, (credit, perhaps, most justly established, and based upon undoubted property,) must be brought to market, and prices fall, unless he can substitute money in the place of credit, which has hitherto served him, but which has fallen into temporary disrepute. Such cases demand an immediate increase of currency, not for the purpose of upholding prices above their level, which I consider to be impossible, but for the purpose of breaking the suddenness of their fall, in as far as the state of the credit is the cause of it.

With regard to contraction of the currency, owing to abundance beyond the wants of the community, fewer instances, I believe, could be found, because it is always the interest of the issuing bodies, to keep up the circulation to the highest possible point. It is no less true, however, that there are times when diminution is expedient, and it is yet a desideratum, in the management of the currency, to devise a system by which the quan-

tity may regulate itself. A striking instance of diminution in the quantity of the currency has recently occurred, a diminution proceeding, I believe, entirely from decreased demand, owing to the general falling off of business throughout the country. (Should the reduction have been the result of forced contraction, on the part of the issuers of notes, it only affords an illustration of the destructive effects of such a process.) Every one is aware of the depressed state of trade, and of the general distress which pervaded the country, through the years 1840 and 1841, during which time the amount of circulation of the country was continually falling. We find that the total amount of paper circulation for the United Kingdom, in the spring of 1839, was about £40,000,000, and that, in January, 1842, it was reduced to £33,605,013, being a diminution of six millions and a half in less than three years. This *reduction* I believe to have been in no way forced, as the Bank was always open to discount at five per cent., and it took place latterly during a continued *influx* of gold.

From these examples, and they might be multiplied, we may draw the following conclusions:—

1st.—That there is no fixed amount of currency, which is adapted to the wants of the country at all times. All those schemes, therefore, which would propose a fixed amount of inconvertible paper currency, would prove highly inconvenient to the public.

2d —That an increased demand for currency fre-

quently takes place during efflux, and a diminution of demand during influx of gold. All those schemes, therefore, which propose to increase or diminish the quantity of currency, according to the influx or efflux of gold, would be equally inconvenient.

Even Mr. Wright's suggestion, of an inconvertible currency to a certain limited amount, and a currency exchangeable for specie beyond that amount, fluctuating with the amount of bullion, would not decrease the inconvenience. Nor would Mr. Horsley Palmer's system, of keeping the amount of securities fixed, and throwing the fluctuations in bullion, partly upon the deposits, and partly upon the circulation of the Bank, entirely relieve us from difficulty.

3d.—That, during times of discredit, the demand for increase of currency is urgent, and the operation of increase sometimes extremely rapid.

Those schemes, therefore, which propose, that the amount of currency should adjust itself by the natural process of commerce, would act too slowly, and, consequently, fail, in such emergencies.

Lastly.—That a power of expansion and contraction in the currency, without reference to influx or efflux of bullion, is essential to the well-being and safety of commercial transactions.

Now if this last conclusion should be admitted, let us next inquire how the system which proposes, that the currency should oscillate precisely

as if it were exclusively composed of metal, agrees with it. It is diametrically opposed to any such conclusion. We find Mr. Loyd recommending, in times of influx of bullion, "a determined action on the part of the Bank, for the purpose of keeping up the amount of its securities, and *making* the circulation vary at least in some proportion relative to the increase of bullion,"* though not called for by the public; and, also, the most rigid firmness in withholding increase, though called for, when efflux of bullion is taking place.† Nevertheless, the oppressiveness of this system is such in certain cases when carried to extremes, that even its warmest advocates, are compelled to admit, that there are exceptions to their own rule.

Mr. Loyd admits that an "extra issue of Bank of England notes, to fill the chasm created by discredit of country paper, became absolutely necessary in 1825." This is an exception to the rule: because the reduction in the quantity of bullion at the Bank at that time, was greater than the chasm in the quantity of country paper, and, according to the rule, no increase of issue should have taken place, till the diminution in the quantity of country paper had exceeded that of bullion. This admission clearly shows the frailty of the system under severe pres-

* Further Reflections, p. 29.

† Second Letter to J. B. Smith, Esq., p. 33.

sure, and how ill adapted it is to all seasons. Mr. Norman also admits the difficulty of such a crisis as that of 1825, and suggests, that special application to the "First Lord of the Treasury, the Chancellor of the Exchequer, and the President of the Board of Trade,"* might be made in such cases, as a Board empowered to direct the necessary violation of the rule. But who could be entrusted to decide when the real case for deviation had arrived? How much mischief also might have occurred, whilst the Board were coming to a decision.

Mr. Joplin, who advocates a national currency upon metallic principles, considers a large importation of corn as an exception, and observes, "one advantage of the proposed (*i. e.* his own) plan of currency is, that, while it corrects the evils of our present system, it will also prevent those incident to a metallic circulation, by enabling the Government to prevent the contraction which would otherwise take place at such periods; or to do what will be still better, to suspend cash payments when a scarcity (of corn) is ascertained."†

The Directors of the Bank of England practically admitted an exception to the rule in January, 1837, when they advanced £1,300,000 to the Northern and Central Bank, then in difficulties, their bullion having fallen at the time to £3,800,000, and Mr.

* Remarks on Currency, &c., p. 107.

† On our Monetary System, p. 46.

Norman says in his evidence before the Committee of 1840, "under all the circumstances of the case I believe the Bank acted properly."

The crisis of 1793, and that also of 1797, before referred to, were considered by the Bullion Committee as exceptions to the rule.

The cases of exception, then, are numerous, when the rule, of contracting the quantity of currency in exact accordance with the efflux of gold, must be abandoned, and I perfectly concur in them all. But I think the cases of exception are in fact more numerous than the cases within the rule. The exceptions admitted are indeed the most important, viz. political alarm, as in 1797; commercial alarm, as in 1793, 1825, and 1837; importation of corn, as in 1839. In such cases the temporary demand for gold is so intense, either for hoarding or for exportation, that by allowing the currency to fluctuate at such times as if it were metal, it is readily admitted that we should be causing it to pass from soundness to unsoundness, from steadiness to variation of value. But are there no other cases of the same sort? What should we say to the case of a sudden declaration of war with France? Would not the system be abandoned at once? One of the witnesses before the Committee observes, "In a time of war I would stop payment at once. It would be better to stop, before gold was gone, than afterwards." What are we to say to the case of a demand for bullion, in consequence of loans advanced to foreign

countries, or large investments in their funds, as in 1825, 1834, and 1836, or for subsidies to allies, as during the late war? Does not the sudden breaking up of credit, in a country with which we are in commercial connexion, create a temporary demand for gold, as lately with North America? Does not a revolution in a neighbouring state, occasion a temporary efflux of bullion, as with France and Belgium in 1830?

Now, as neither the state of the currency, nor the state of trade, is chargeable with causing the efflux on these occasions, I maintain that they are all occasions when the ordinary operations of commerce should not be disturbed, if it can possibly be avoided. But a system of currency fluctuating as if it were metal, cannot avoid interfering with commerce on such occasions. The causes of disturbance, however, are many of them not extraordinary, but what we are liable to at any moment; and I contend that not only these, but every case in which the standard metal is in unusual demand, either at home or abroad, when not arising from excess of issue, or *permanent* increase in the value of gold abroad, is one in which no contraction of the currency should take place in order to counteract it. And, as I consider that the quantity of currency rather adapts itself to the state of prices, than that it is the cause of that state, and that the currency may be so managed as never to be in such excess as to cause the efflux of bullion, there is no case in my opinion

in which an *immediate* contraction of the quantity, corresponding with the efflux of bullion, is required; and in fact the exceptions appear to me altogether to take place of the rule.

It is at least manifest, which is all that I am here proving, that the system which proposes that the "paper circulation should vary precisely as the amount of the circulation would have varied had it been exclusively metallic," is incompatible with the principle of expansion and contraction of the currency according to the demands of the community. Moreover I think we must agree with the following resolution passed at a meeting of the country bankers on June 2, 1840: "That the project, of making the amount of the circulating medium throughout the kingdom rise and fall in accordance with the stock of gold bullion of the Bank of England, has hitherto been found impracticable, and appears to this meeting, if fully carried out, calculated to produce uncertainty and confusion in all pecuniary transactions."*

But the system we are examining is not only defective in principle, as devoid of elasticity under the varying demands of trade and credit: it is also vicious in practice, inasmuch as the expansions and contractions, resulting from the oscillations of paper in accordance with the oscillations of metal, almost invariably occur at periods when the opposite ten-

* H. W. Hobhouse's evidence, 1841, No. 37.

dencies should prevail : that is to say, expansion of the currency is found going hand in hand with overtrading and rising prices, contraction with discredit and falling prices.

This must necessarily be the case, because unfavourable exchange, and efflux of bullion, in as far as they are occasioned by high prices, cannot take place, till *after* prices have so risen above their ordinary level, as to cause a falling off of export of goods ; nor favourable exchange, and influx of bullion, till *after* prices have so fallen below that level, as to produce unusual demand abroad. The evil then must be allowed to reach its height, before any indication is found in the exchanges. Mr. Loyd has well described the history of trade. He says, “ First we find it in a state of quiescence, next improvement, growing confidence, prosperity, excitement, overtrading.” Up to this point we know that this is not a description of times of efflux of bullion, scarcity of money, and high rate of interest ; but, on the contrary, of influx of bullion and full coffers, low rate of interest, and superabundance of money. Confidence and credit are at their height at such periods, and perform the functions of money, through bills of exchange and other modes of credit, and it is difficult for the Bank to keep up the amount of its issues. But when prices have exceeded reasonable bounds, and foreign demand has fallen off, then the exchanges begin to be affected, for the balance of import and export is against us, and bullion begins

to flow. The merchant, who has held his goods in the expectation of renewed demand, meanwhile begins to waver, prices droop, then rapidly fall, the efflux of bullion accelerates its course, contraction of the currency takes place in accordance with the rule, though credit is shaken and money loudly called for to supply its place: "convulsion, pressure, stagnation, distress," are the results. In the latter case the breaking up of credit and falling prices should, I contend, be counteracted or alleviated by expansion; in the former, over-confidence and high prices should be checked by contraction of the currency.

To conclude, I have endeavoured to establish these three points.

- 1st.—That the second leading principle in the currency is, that it is the medium of exchange, and, as such, should possess the power of expansion and contraction, in accordance with the demands of the community, for the purposes of exchange.
- 2d.—That the system which would cause the "paper circulation to vary precisely as the amount of the circulation would have varied had it been exclusively metallic," is incompatible with this principle.
- 3d.—That such a system is vicious in its mode of action, inasmuch as it would force issues, when contraction should take place, and withdraws them, at the moment when most required.

CHAPTER III.

SOME PRINCIPLE OF SELF-REGULATION IS REQUIRED, AS A PREVENTIVE, AGAINST EXCESS OR DEFICIENCY IN THE QUANTITY OF MONEY IN CIRCULATION INTERFERING WITH ITS VALUE.

THE next important subject of enquiry is, how far expansions and contractions of the currency affect prices ; and whether prices follow and are the effect of, or precede, and are the cause of fluctuations in the amount of currency. The general impression is that every increase or diminution of the amount of currency has sooner or later an effect upon prices and also on the value of the currency.

Mr. Norman considers that, " the general level of prices in each country depends immediately upon the amount of money in that country."* Mr. Loyd remarks that, " the connexion between fluctuations in prices and variations in the amount of the circulating medium is a question of extremely difficult solution in its detail : and probably after the most

* Letter to Charles Wood, Esq., p. 103.

laborious investigation we can only come to the conclusion that the immediate effect upon prices of any variation in the amount of circulating medium may be overstated, whilst there undoubtedly exists a very intimate connexion between them."

Mr. Tooke again is of a different opinion. He is asked before the Committee of 1840, "Will not the variations in the quantity of the circulating medium affect prices?—No.* Will it not, if abundant, be more at the disposal of individuals for purchases, than when it is scarce?—It will be more easily disposable, but it will not necessarily be so disposed of. I believe that the amount of the circulating medium is the effect of, and not the cause of variations in prices."†

"Will the prices of commodities undergo a variation in proportion to the increase of bills of exchange?—No. The increase of bills of exchange would not be the cause of any rise of prices, or vice versâ. Circumstances affecting the articles, or the opinion of persons dealing in the articles would affect prices."‡

"Will the prices of commodities vary in proportion to the increase of deposits in bankers' hands?—Not in the slightest degree."§

Here then we have the opinions of three writers, highly qualified from their knowledge and experience to decide this question, and yet much at

* No. 3298. † 3299. ‡ 3302. § 3303.

variance with each other. The first considers that the general level of prices depends immediately upon the amount of money. The second is doubtful how far this may be the case, though he sees an intimate connexion between them. The third considers that there is no necessary connexion between them whatever.

This is a question, however, lying at the root of the whole subject. If we are not agreed as to the effect of expansion and contraction of the currency, how can we pretend to lay down laws for its regulation? Let us consider then if in any degree these opposite views may be reconciled.

There are two modes of varying the quantity of currency. One by the operation of the *issuing body* without reference to the demands of the public: the other by the operation of *the public* upon the issuing body, adapting the supply of currency to its wants. Let us examine separately the effect upon prices of each of these modes of variation.

I. The issuing body has the power of increasing or diminishing the quantity of currency, without reference to the wants of the public, by purchase or sale of bullion, Exchequer bills, stocks, &c., or by advances to Government. If the increased or diminished quantity is more or less than what is required by the public, and the public have no means of rectifying the quantity, the currency must for a time continue in a state of forced excess

or deficiency. Are then prices influenced by *forced* excess or deficiency of currency ?

First. As to forced excess.

Where does excess first show itself ? In the market for money, and with bankers. But will any one be induced to make use of more money, simply because there is more than usual in the market ? certainly not. Why should he ? The market then will continue oversupplied, and without borrowers, till bankers and capitalists increase the temptation to borrow, by lowering the rate of interest. Let the quantity be what it may, let it be increased ad infinitum, if the rate of interest remain the same, there is no apparent reason why more should be borrowed, or why prices should be affected by the increased quantity. But when the rate of interest has fallen, and temptation to the unwary is held out, increased borrowing, increased speculation, and increased prices of speculative goods very soon follow, in proportion, other things being the same, with the diminution in the rate of interest. If money could be procured permanently at one per cent., what merchant or enterprising person would not be anxious to extend his operations of trade upon borrowed capital, thereby increasing the competition for goods in the market, and therefore also their prices ? In proportion as the fall in the rate of interest is nearer to this lowest point, and the expectation of the permanency of the depression prevails, so will the stimulus to prices be.

With regard then to *forced* issues upon the public in *excess*, by the issuing body, I agree with Mr. Tooke, that as far as increase in quantity simply is concerned, the variation in the amount of currency has no *direct* effect upon prices : but inasmuch as forced excess cannot long continue without affecting the rate of interest, I agree with Mr. Norman and Mr. Loyd, that indirectly such excess has a powerful influence upon prices, and ultimately on the value of the currency.

Secondly. As to forced deficiency.

With regard to forced deficiency in the quantity of currency, the case is different. We may lead our horse to the water, but however abundant the supply we cannot force him to drink : whilst should the supply be deficient the horse will die. I agree then with those who consider, that a *forced* diminution of the supplies of currency has a *direct* and powerful influence upon prices and value, dangerous also in my opinion to the well-being of trade.

II. Let us next consider the variations in the amount of currency, proceeding from the action of the public upon the issuing body, adapting the supply to its wants.

It is clear, from the terms of the proposition, that variations in the quantity of currency effected by this mode, follow the operations of purchase or sale by the public, and are not the cause of them. Business increases, and more currency is required ;

business diminishes, and the quantity falls off. The variation in quantity may even happen simultaneously with a rise or fall of prices, yet it cannot be said to be the cause of that rise or fall. "Circumstances affecting the articles, or the opinion of persons dealing in the article," as Mr. Tooke observes, are the cause of the variation in price; and I perfectly agree with him, therefore, that whatever may be the increase or diminution in the amount of money, bills of exchange, or deposits, as long as the increase or diminution shall have taken place strictly according to the wants of the community, variation in quantity is in no way chargeable with variation in the prices of commodities. Prices may rise beyond their just level, (inevitably to fall again from decrease of demand,) and the currency may increase in quantity in proportion: or prices may be depressed from the state of markets at home or abroad, below their ordinary level, trade may become stagnant, goods may want purchasers, (inevitably to rise again from increase of demand,) and the quantity of currency may decrease in proportion. But the amount of currency will neither be the cause of the state of prices, nor will it in any way affect the value of money.

On the whole, then, we may come to the following conclusions.

1st.—That as regards simply the quantity of currency in circulation, no increase, however great,

can have any effect upon prices or value of the currency, as long as the rate of interest remains unaltered.

2d.—That *forced* increase, beyond the demands of the community, acts indirectly upon prices, by lowering the rate of interest on capital, and increasing temptation to borrow, and ultimately depreciates the currency.

3d.—That *forced* diminution, below the demands of the community, acts directly and powerfully upon prices, raises the value of the currency, and is dangerous in proportion to its degree and suddenness.

4th.—That no increase or diminution of quantity of currency, when supplied in strict accordance with the demands of the community, the rate of interest remaining unaltered, can have any effect upon prices or the value of the currency.

As regards the fact, of forced excess or deficiency of currency, above or below the wants of the public, under the administration of the Bank of England of late years, I doubt whether it has existed to any great extent, as regards mere quantity. Quantity however is not the evil to be complained of. It is the last drop which overflows the cup ; and the last £500,000, of forced issue, may have the effect of bringing down the rate of interest upon the whole eighteen millions of notes as well as a larger quantity, and it is the stimulus of low rates of interest which is the evil.

When, however, we find Mr. Norman stating, that the Bank finds extreme difficulty, during an influx of bullion, in keeping up the amount of its mercantile securities, "though the Bank has not deemed it right, hitherto, to lower the rate of discount to such an extent as to keep up the *whole* amount of securities from that source ;"* and when we know that the purchase of Exchequer bills is resorted to at such moments,—when we have seen the Bank offering money to the public, at such a tempting rate of interest that it became difficult to refuse the bait, as in the instance of the re-issue of the money accumulated on the West India loan, which was offered at the rate of $3\frac{1}{2}$ per cent.—when also we have seen advances made to Government, simply in accordance with the wants of the Exchequer, without reference to the fullness or otherwise of the currency, we cannot help coming to the conclusion, that more circulation has at times been forced upon the public, than the state of trade and business operations of the country has required.

Let us stop for a moment to consider, how the proposed system of currency acting as if it were purely metallic, would operate with regard to excess or deficiency, and what effect it would have upon prices. Confessedly such a system cannot be carried into effect, except by means of forced expansions and contractions of the currency. With every

* Committee of 1840, No. 2187.

fall in the exchanges and demand for bullion, whatever may be the cause, prices must be brought down, importation, according to Mr. Norman, must be discouraged, exportation encouraged. Not only must the numerical reduction of notes be effected, as Mr. Loyd observes, but the more important moral results of "*the shock to credit and confidence*" must be looked for, and the credit currency effectually restrained.* On the other hand, if a favourable exchange produces influx of bullion, "a determined action on the part of the Bank," is recommended, "for the purpose of keeping up the amount of securities, and making (or forcing) the circulation to vary at least in some proportion relative to the increase of bullion."† Can any thing be conceived more vicious than such a forced system of currency, constantly operating upon prices? If there were no principle upon which the prices of commodities regulated themselves, there might be some reason for attempting to take them in hand, and regulate them by means of forced variations in the quantity of currency: but when we know, that freedom of intercourse and competition, will effectually regulate the prices of all things throughout the world, it appears to me as unnecessary, as it is unwise, to attempt by forced measures, to regulate that which will regulate itself, and which must

* Remarks on the Management of the Circulation, &c. p. 67.

† Further Reflections, p. 29.

ultimately prove far beyond controul. A metallic system, then, or one assimilated to it, must subject the currency at all times to the evils of *forced* expansion and contraction, and *forced* variations in the prices of commodities. But to return ; let us consider if there is any mode, by which the quantity of money in circulation may be caused at all times to regulate itself.

Money, in the form of metal, is a portion of the capital or property of the country, set apart for the purpose of facilitating the exchange from hand to hand of property in general. It is subject, therefore, to the same laws as capital. The rate of interest paid for the use of money in this form will always be the same as that which is paid upon capital in general ; and there can be no tendency to increase or diminish the quantity of money in the form of metal, because the rate of interest on capital falls or rises. Interest on money and interest on capital must always rise and fall together. Money, in the form of paper, if it could always be preserved exactly of the same value as metal, would also be regulated by the same laws ; but, with all the advantages of paper, is coupled this disadvantage, that every one has the power of increasing or diminishing its quantity, in the shape of notes or bills of exchange, and forced increase or diminution of quantity we have seen affects the value. Unlike metal, also, a fall in the rate of interest on capital, tends to increase the

quantity of paper money, and a rise to diminish it. With the introduction, therefore, of this artificial species of money, some artificial mode of regulating its quantity appears to be required. This, I think, may be effected by means of a fixed rate of interest upon all issues of paper money, and that rate should be the average rate upon capital in general in the country.

Interest is that portion of the profit of capital, which the employer can afford to pay for borrowing capital, and yet obtain remuneration for his risk and trouble. Were the rate of interest reduced as low as 1 per cent., capital borrowed would be placed nearly upon a par with capital possessed. The demand for issues of money, or the means of procuring capital, would in such case be limited merely by the amount of available security to be produced, and the effect would be, the rise in price of all those commodities which can in any way be turned to account so as to produce a profit. On the other hand, were the rate of interest as high as 10 per cent., though there are moments when even prudent men may be content to give so high a rate, yet, for any length of time, the most active and enterprising could not afford to pay 10 per cent. on borrowed capital. There is a certain average rate of profit upon capital in this country, and there is a certain average rate of interest resulting from it, which in the long run may continue to be paid, though it is difficult to determine with precision

what that rate may be. When money is offered below that rate, it stimulates over-issue, and high prices; when above it, it produces deficiency and low prices. When the currency, however, is not interfered with by any of the various modes of forcing, it has no tendency to excess, but reduces itself to the lowest possible quantity which will effect the operations of change of property from hand to hand, because every one is anxious, excepting only the thoughtless and the miser, to part with that which affords neither profit nor enjoyment in itself, and to purchase either the means of enjoyment, or capital, which with the aid of industry, will bring with it profit. If not offered, therefore below the average rate of interest in the country, it can never for any length of time become superabundant, and if freely offered at that rate, it can never for any length of time become deficient in quantity. Our object then is to ascertain the average rate of interest in this country, and to fix that as the rate at which all issues of money shall be made: and practically I believe that 5 per cent. is the rate of interest required.

I do not mean to say that there is any charm in the figure 5, or that there is any one fixed rate of interest which is applicable to all times, and all countries. We know that the common rate of interest, in some of our colonies, is from 10 to 15 per cent., in India 8 or 10 per cent., the legal rate at New York 7 per cent., in Canada 6 per cent. But in

England, where capital and trade have existed together for ages, and increased to an extent unknown to new countries, the rate of 5 per cent. interest has been practically found the average rate which can be given or obtained in trade for many years past. It is true that there are different rates of interest upon different securities in this country, according to the difference of risk. The interest upon money lent upon Government Securities, is generally little more than 3 per cent.; the interest upon landed security, nearer 4 per cent.; one class of bills of exchange bears 4 per cent., another class 6 or 7 per cent. Were it proposed, therefore, that issues of notes should be made, exclusively, upon Government or landed security, $3\frac{1}{2}$ per cent. should be the fixed rate at the Bank or banks of issue. This, however, would be inconvenient to trade. A more convenient mode, therefore, of adapting the quantity of currency to the state of trade and business operations of the country is, by means of first class bills of exchange; and the average rate of interest upon such bills as are practically taken as first class by the banks I think is 5 per cent.

The Bank of France has fixed 4 per cent. as the rate above or below which it will not discount: and that we should not go below this point, is also recommended by Mr. Leatham. Considering, however, the great expansive power of credit in this country and the tendency to abuse it, and that the Bank is not always over scrupulous as to its bills,

I think 5 per cent. would be safer in the long run than 4 per cent.

Far be it from me to advocate the re-enactment of the Usury Laws, and limit the legal rate of interest on capital, or on money in existence, to 5 per cent. I consider that the relaxation of the Usury Laws, has been one of the most efficient means of alleviating the violence of the pressures which occasionally take place, and which must ever take place in the state of trade and money. But with regard to the creation of money, I feel satisfied that fixing the rate of interest, below which no issues should take place, at 5 per cent., with unrestricted issue at that rate, when called for, would on the whole have the effect of regulating and adapting the quantity of currency, in just proportion to the wants of the community, and of preventing the quantity of money from influencing prices, or in any way affecting the value of the currency. Prices, no doubt, would rise and fall, as now, and the exchanges might continue favourable or adverse for continued lengths of time; but the evil would not be in the currency, and if left entirely to themselves, prices would, in course of time, recover their ordinary level, and the country meanwhile escape those violent convulsions, arising from sudden expansions and contractions of currency, which now take place.

This is my full conviction. But admitting for a moment that I am wrong in my assumption, and that

the currency were still liable to derangement, and some restraint upon, or stimulus, to the quantity, should occasionally be found necessary ; still I maintain that *forced* issues or contractions of the amount, as being violent and uncertain in their effect, are not the most proper remedy ; but that a gradual variation of the rate of interest, either by relaxation or restraint, is a far safer and more scientific mode of proceeding, and in the end equally efficient for the purpose. Moreover, forced issue or contraction of the quantity of money, affects only the metal and paper currency directly, and has a most unequal effect upon credit currency, according to the state of public confidence. The rate of interest, however, when varied by the issuing bodies throughout the country, would act with a sure and even pressure over the whole currency, metal, paper, and credit, and produce its results with the most certain yet gentle operation.

The principle in the currency, next in importance to the two leading principles we have already examined, viz. steadiness of value as a measure of value, and power of elasticity as the medium of exchange, is this power of self-regulation, preventing excess or deficiency in quantity from interfering with value. Without this principle, as I have before observed, the currency is left much in the same state, as a steam-engine without its "governor," or the chronometer without its "compensation balance."

We have already found an analogy, for the two

first principles in the currency, in the working of the mill; so, likewise, we find in it an illustration for this third principle. The mill is not to be impeded by want of water, and is provided, therefore, with a sufficient reservoir: so should the currency be provided with sufficient reserves of metal, or paper equivalent to metal. The mill must adapt its powers of action to the immediate demands which may be made upon it: so must the currency be capable of adapting itself in quantity to the public wants. The reservoir of the mill, however, must not be subject to disturbance from floods, and is provided, therefore, with its waste weir, thereby preserving a certain level of water, which cannot be exceeded: so, also, the currency should be protected from sudden inundations of metal or paper, arising either from imprudent issues or from favourable balance of trade. Now, if either of these causes should tend to create a superabundance of currency beyond the wants of the day, by means of a fixed rate of interest of 5 per cent. upon issues at the Bank or banks, the evil, I maintain, will correct itself,—for superabundance will lower the rate of interest in the market below 5 per cent., and discounts must fall off; deficiency will raise the rate of interest in the market above 5 per cent., and discounts must increase.

But how does the system which would assimilate the working of our currency to one exclusively metallic, propose to rectify the evils of excess or

deficiency in quantity. By influx or efflux of bullion. According to the theory, if excess shall have produced depreciation of the currency, efflux of bullion will correct it. If deficiency shall have produced appreciation, influx will remedy the evil.

The objections to this mode of remedy are, first, that the evils of excess or deficiency are suffered to reach their height, before the remedy of influx or efflux can begin to act; second, that influx and efflux of bullion frequently arise from causes disconnected with the currency, and are in action, therefore when not required, causing the very evils they are designed to remedy.

A rate of interest, however, upon loans and discounts granted by the issuing body, fixed at the average rate of the country, would be liable to neither of these objections, and would have the advantage, moreover, of *preventing* instead of curing the evils complained of.

I will conclude, therefore, by observing—

- 1st.—That some principle of self-regulation is required in the currency, as a *preventive* against excess or deficiency of quantity interfering with value.
- 2d.—That forced and sudden variations in quantity, according to the influx and efflux of bullion, applied as a *corrective* to excess or deficiency of quantity, come too late in their operation, and are, moreover, destructive of the two first principles in the currency.

3d.—That the only safe and legitimate mode of regulating the quantity of currency, with the view of preventing excess or deficiency, is by means of the rate of interest.

I would suggest, therefore,

4th.—That the rate of interest upon loans and discounts at the Bank of England and all banks of issue should be fixed at 5 per cent.

5th.—As an exception to this rule, That in the event, of continued adverse, or favourable exchange, to the extent of one half per cent. for two successive years, liberty be given to the banks of issue to raise their rate of interest gradually to 6 per cent. or to lower it gradually to 4 per cent. as long as the derangement of the exchange should so continue.

CHAPTER IV.

BANKERS' DEPOSITS, AND BILLS OF EXCHANGE,
FORM AN IMPORTANT PART OF OUR CUR-
RENCY.

It has not yet been decided what constitutes currency or circulating medium ; nor whether bankers' deposits and bills of exchange are to be included in those terms. This is a more important subject of inquiry than is sometimes allowed. It will be my object, therefore, to shew that deposits and bills of exchange, together with credit in various forms, perform the functions of circulating medium, that is to say, afford the means of conveying property from hand to hand, to an extent equal to, if not greater than, the operation of the whole paper circulation of the kingdom : that they form a most sensitive portion of the circulating medium, which it is dangerous to disturb : a portion which fluctuates in quantity more than either the metal or paper portion of the currency, and, under proper regulations, adapts itself with the greatest nicety to the state of trade.

The different forms of credit which we are con-

sidering have been variously denominated, under the terms “expedients for economizing money,” “auxiliary currency,” and “credit currency.” The latter term appears to me the most applicable, and I consider that the whole circulating medium may be properly and conveniently viewed under the three heads of metal currency, paper currency, and credit currency.

Let us now examine into the nature of the credit currency, under its two principal heads of bankers’ deposits and bills of exchange.

I. Bankers’ deposits.

The whole question, as regards deposits forming a portion of the circulating medium, appears to me to be,—are they, or are they not, capable of transferring property from hand to hand without the intervention of money? In as far as all the purposes of money can be effected by deposits, without money, they form independent credit currency: in as far as deposits effect payments and transfer property by means of money, they are not currency; for in the latter case it is the bank-notes or coin, and not the deposit which makes the payment. In what degree then are deposits capable of acting independently of bank-notes or coin? First, as to the creation of the deposit. Second, as to the payments or transfers to be made by it.

1st. A deposit may be created by means of bank-notes or coin, but not necessarily by either. Six

persons may present themselves to a banker in the course of the same day, each requesting to be entered in his books as entitled to draw for £10,000. The first may bring with him £10,000 in bank-notes, the next £10,000 in bills of exchange, a third the same amount of exchequer-bills, a fourth foreign bonds, a fifth title-deeds sufficient to secure £10,000, a sixth, perhaps a wealthy country gentleman, with nothing but his request in writing for an advance of £10,000, and a promise to repay. The banker we will suppose grants to each his request. He enters to the account of each £10,000, making an increased amount of deposit in his books of £60,000. With regard to the bank-notes, they may be lent the next day, perhaps within the next hour, at interest in the market: the other securities are locked up in the safe of the banker, instead of the boxes of the parties who brought them.

Here then deposits have been created to the extent of £60,000, with the intervention of only £10,000 in money, and it is clear that as large an amount might have been created without the use of money at all. The metal and paper portion of the currency remain unaltered in amount, but the power of purchase is apparently increased to the extent of £60,000. If we suppose the same transaction to have passed with thirty different bankers on the same day, the power of purchase may have been increased to the extent of £1,800,000,

without the addition of a single sovereign or bank-note to the circulation. As regards, then, simply the power of creating deposits, there is no necessary connexion between them and money. They are merely credits in bankers' books, and were bankers in the habit of borrowing money upon the securities upon which they had advanced, the power of creating deposits would be limited only by the extent of available property in the country.

2d. As to the payments, or transfers of property, to be made by deposits.

Can payments, or transfers of property from hand to hand, be made by deposits, without the intervention of money? If they can, then are deposits a species of currency distinct from money. Now it is quite clear, that if there were but one bank of deposit, and the £1,800,000 of deposits, created as above, were placed in that one bank, in as far as purchases of property and settlements of debt, should be effected between parties keeping accounts in that bank, and payments made simply by transferring credits, or deposits, from one account to another, without the use of money, to that extent deposits would act as independent currency. In as far as payments should be made, to parties not keeping accounts with the bank, as they must necessarily be made by means of coin or bank-notes, deposits would not act as currency: for money would be withdrawn by the banker from circulation to provide for the payments.

But we are not acting under a system of one sole bank of deposit, but of many: so that the number of payments to be made, to parties not keeping accounts with any particular bank, must far exceed those to be made, to parties keeping accounts with it: and thus the power of acting independently of money is taken from the deposit, apparently to more than half the amount. On the other hand, however, it is generally known, that a portion of the private bankers in London, settle accounts between each other, daily, in what is called the Clearing-House, the total amount of payments to be made by each banker, being there set off against the total amount to be received by each from other bankers, and the balance only between them paid in money. Thus the operations of the numerous private bankers meeting in the Clearing-House, is nearly equivalent to the operation of a single bank. Now we have exact information with regard to the amount of payments effected by means of the Clearing-House, and the amount of money required for its operations. The following return was made to the Committee of the House of Commons in 1841, of the amount of transactions settled in the Clearing-House, and the money required in each month during the year 1839, by twenty-nine bankers, out of about fifty, carrying on business in London.*

* Appendix 31.—Committee of 1841.

	Amount of Transactions.	Amount of Money.
1839 .. January	£82,762,400	.. £6,348,500
February	76,164,700	.. 4,960,200
March	75,879,200	.. 5,621,500
April.....	85,839,200	.. 5,836,000
May	80,587,600	.. 5,615,000
June	67,413,900	.. 5,060,000
July	83,865,200	.. 6,284,800
August	87,610,500	.. 6,164,900
September	74,237,700	.. 5,129,800
October	87,478,200	.. 5,706,800
November	81,729,200	.. 4,793,100
December	70,833,800	.. 4,755,000
	<u>£954,401,600</u>	<u>£66,275,600</u>

From this return we collect, that an average amount of payments to the extent of upwards of £3,000,000, is settled through the Clearing-House every day of business in the year, and that the daily amount of money required for the purpose is little more than £200,000. It would appear, then, that deposits in the hands of twenty-nine private bankers do, without the intervention of money, daily transfer property from hand to hand, through the Clearing-House, to the extent of £2,800,000, and that to this extent it cannot be denied that they act as independent currency. It must also be admitted, that they act as currency to the further extent, of the transfers from account to account in the books of each individual banker, perhaps to the extent of £1,200,000 more, making together a settlement of transactions to the extent

of £4,000,000, daily, by means of deposits in the hands of twenty-nine bankers only, without the intervention of money.

But this is not the full extent of the power of deposits, as regards even the twenty-nine private bankers we are speaking of. The daily £4,000,000 of payments effected by means of deposits, through the Clearing-House, and by means of transfers from account to account, are performed by merely a portion of the total amount of deposits in their hands. That portion may be a tenth. It may be a fifteenth. Whatever the total amount of deposits in their hands may be, a considerable portion must be deducted from that amount, when viewed as currency, for operations of transfer of property, effected by means of money daily drawn at the counter, which operations are performed by money and not by deposits. It will not be unreasonable, however, to conclude that after this deduction there is an average amount of at least £15,000,000, constantly lying dormant in their hands, ready to be made use of, but not brought into operation. As to this portion of the total amount of deposits, there is a question whether it should be considered as currency or not.

It has been observed that "an aggregate of deposits, formed of the *minimum* of the deposit accounts with all bankers, is wholly inapplicable to the adjustment of transactions or the payment of debts, and cannot, therefore, upon any plausible

ground be assimilated to money.”* Now it is true, as we have found by the foregoing return, that the great mass of deposits is daily unapplied, but it does not follow that they are therefore inapplicable. If we attempt to measure the power of deposits, as compared with the power of bank-notes, to perform the ordinary transfers of property from hand to hand, it is clear that we must make the same distinction with bank-notes, between what is daily applied, and what is merely applicable, as with deposits. Bank-notes are not at all times active and in circulation, and we must equally deduct from their total amount, the minimum sum which constantly remains unused, that is to say, held in reserve in the hands of bankers, in the drawers of shopkeepers, or in the pockets of individuals, as deduct the minimum amount of deposits from their total sum. We may compare the daily operations of bank-notes and deposits together, or we may compare their total amounts: but, to come to any useful results, we must not compute one in one way, the other in another way. Let us then compare their total amounts.

With regard to the total amount of deposits, we have as yet merely considered the deposits in the hands of twenty-nine private bankers. To these must be added the deposits in the hands of about twenty other private and joint-stock banks in London,

* Mr. Norman's Letter to Mr. Charles Wood, p. 64.

the Bank of England, and all other banks in England, Scotland, and Ireland. Mr. Norman has assumed, the total amount of deposits throughout the United Kingdom, at about 100 millions,* which may probably be near the truth. The total amount of bank-notes in the United Kingdom in 1839 was about 40 millions, in January 1842 33½ millions. Viewed then in this way, the advantage in point of amount is much in favour of deposits.

Mr. Norman considers that about 30 millions, or three-tenths, of the gross amount of deposits, "*frequently* passes from one name to another" in bankers' books. I think I am justified in estimating the *daily* amount of operations performed by means of deposits, throughout the United Kingdom, at not less than £15,000,000, taking into consideration the numerous branches of some of the joint-stock banks, settling accounts with each other by mere entries in their books, and the vast transactions of some of the great commercial and manufacturing towns. The *daily* amount of operations performed by means of bank-notes, I think, cannot be estimated above £20,000,000.

We are justified then in saying that bankers' deposits, or credits in the books of bankers, are capable of transferring property from hand to hand, without the intervention of money, and act therefore as independent currency : to an extent, also, not

* Ibid. page 67.

much below the whole amount of paper circulation in the United Kingdom.

II. Bills of Exchange.

The question, whether bills of exchange form part of the circulating medium of the country, and are to be classed therefore under the head of credit currency, must be tried by the same test that we have applied to deposits. Are they, or are they not capable of transferring property from hand to hand, without the aid of money?

Mr. Leatham, of Wakefield, has given much attention to this branch of the subject, and indeed is the first who has brought, this very considerable portion of the whole circulating medium, in a tangible form before the public.* The great mass of wholesale transactions in goods throughout the country, much of the retail, and all foreign transactions are carried on by means of bills of exchange. It is in this vast portion of the circulating medium, exceeding usually 100 millions in amount, according to Mr. Leatham, that the great fluctuations in the prices of all raw and imported produce are indicated: and while some are apt to limit their attention, to the issue or contraction of one or two millions of Bank of England notes, and to attribute the

* The author had already satisfied himself of the vast importance of bills of exchange, before the publication of Mr. Leatham's pamphlet, by returns, through a friend, from the Stamp Office, and by calculations of the average sums drawn upon each class of stamps.

great heavings and subsidings in the state of commerce to such inadequate causes, commerce is in fact extending or contracting itself, prices of commodities rising or falling, from perfectly independent causes, and bills of exchange fluctuating in amount unobserved to the extent of ten, or twenty, times the amount of fluctuation in coin or bank-notes.

Mr. Leatham has estimated the amount of bills circulating in the three kingdoms, in the course of the year 1839, at five hundred and twenty-eight millions, and he observes, "When the origin of bills is *bonâ fide* and legitimate, I place them, with the security of the drawer, acceptor, and perhaps twenty endorsements on the back, in the first class of our currency,—before notes, and next in rank only to gold. I know no purpose of money, except wages, to which bills are not applicable in the provinces throughout this kingdom, though not seen in London in making payments."*

But the question before us is, to what extent are bills of exchange capable of transferring property from hand to hand, without the intervention of money? Mr. Leatham considers, that the whole amount of bills of exchange circulating at each particular period, must be taken as currency, and added to the amount of coin and bank-notes. I cannot quite agree with him in this to the full extent, as the whole amount of bills certainly does not act independently of money. As between

* Letter to Mr. C. R. Wood, p. 38.

drawer and acceptor, in as far as bills are ultimately discharged by money, it is money and not bills which has effected the purpose for which they were drawn. What portion, of the whole five hundred and twenty-eight millions of bills circulating in 1839, was ultimately discharged by the actual payment of money, it is of course impossible to determine. Let us assume the amount to have been forty-eight millions. Let us also assume, that the remaining four hundred and eighty millions of bills passed through the Clearing-House in that year, as Mr. Leatham supposes, and, being there set off one against the other, completed the operation of purchase and sale of property, with the aid of only a trifling amount of money. On this assumption, then, to the extent of about four hundred and eighty millions, bills of exchange will have acted as independent currency. But, inasmuch as they were finally settled through the hands of private bankers, and the Clearing-House, they terminated in deposits: the daily amount of operations of which have already been estimated under that head. As regards, then, simply the drawing and payment of bills of exchange, without taking into consideration the endorsements, I will add nothing to the total daily amount of credit currency in operation, which we have already calculated at about £15,000,000.

But what shall we say as to the amount of transfers of property from hand to hand, by means of

endorsements upon bills of exchange? To this extent, whatever it may be, they act undoubtedly as currency independent of money. It will not be unreasonable, I think, to assume that upon an average there are two endorsements upon every bill in circulation, and to conclude that on the average each bill performs two payments before it becomes due. Upon this assumption it would appear, that by endorsement alone property changed hands, by means of bills of exchange, to the value of twice five hundred and twenty-eight millions, or £1,056,000,000, being at the rate of more than £3,000,000 per day, in the course of the year 1839.

We may safely therefore conclude, that deposits and bills of exchange together, perform the functions of money, by transferring property from hand to hand without the aid of money, to an extent daily of not less than £18,000,000.

If to this amount we also add the value of the daily operations of purchase and sale of property, performed by credit in various other shapes, by setting off accounts one against the other in the books of merchants, shopkeepers, &c., the amount of which it is impossible to estimate, we may readily believe that credit currency, in its various forms, fulfils the functions of circulating medium, to an extent greater than the whole paper circulation of the kingdom.

The following estimate of the number of bills in circulation in every month from April, 1832, to January, 1840, has been published by Mr. Leatham.

QUARTERS ENDING.	Estimated Amount of Bills of Exchange in circulation in Great Britain and Ireland, accord- ing to the returns made by the Stamp Office.	QUARTERS ENDING.	Estimated Amount of Bills of Exchange in circulation in Great Britain and Ireland, accord- ing to the returns made by the Stamp Office.
	£		£
5th April .. 1832	93,555,260	5th April .. 1836	112,874,076
„ July —	87,995,435	„ July —	113,874,472
„ October —	87,204,764	„ October —	134,003,499
„ January . 1833	87,475,813	„ January . 1837	128,033,565
„ April —	90,440,136	„ April —	128,079,646
„ July —	88,002,797	„ July —	110,825,554
„ October —	91,952,724	„ October —	111,741,583
„ January . 1834	114,426,557	„ January . 1838	103,936,212
„ April —	95,880,554	„ April —	112,166,546
„ July —	91,118,540	„ July —	113,413,423
„ October —	97,467,029	„ October —	124,895,586
„ January . 1835	95,839,480	„ January . 1839	114,131,281
„ April —	98,480,937	„ April —	128,162,370
„ July —	101,527,013	„ July —	129,278,922
„ October —	103,789,777	„ October —	139,924,353
„ January . 1836	101,758,351	„ January . 1840	130,824,666

Credit currency is of a nature far more sensitive than paper or metal currency. It is constantly fluctuating in amount, with the state of public opinion and mercantile confidence. It is of so frail a nature, that, with regard to individuals, it may be destroyed by a breath, and with regard to the public, it is, as it were, a building of which, if one stone be removed, the whole fabric is liable to be shaken to the ground. It has a tendency, at times, to assume the whole functions of the currency to itself. If

credit and confidence between man and man in the transactions of life were perfect, there would be no need of money, for all exchanges of property might be made by credit. In proportion therefore as credit increases, so is the use of money less required: as it diminishes, so is money demanded to supply its place. Credit currency, when not forced by the stimulus of low rate of interest, nor checked by violent restrictions upon money, when in fact it is subject to proper regulation, has a tendency to adjust itself with the greatest nicety to the state of trade, and forms a most useful and necessary portion of the circulating medium. How dangerous then to the existence of trade and commerce, how destructive of that uniformity of value which is the first object to be aimed at in the currency, how utterly at variance with the principle which requires, that the quantity of currency should be supplied in strict accordance with the amount of transactions to be performed, would be a system which would venture to touch with violent hands so frail, so sensitive, and yet so useful a fabric, for the purpose of reversing the current of metal, which from various uncontrollable causes occasionally sets away from the country.

The advocates, however, of a system of currency, acting as if it were exclusively metal, confess that unless they are allowed to operate upon credit, they cannot carry their system into effect. If influx of gold is to be produced, or efflux to be pre-

vented, the credit currency must be reduced in quantity equally with the quantity of money. Its power of expansion must be destroyed, lest it should counteract the operation of reduction in the quantity of money. Mr. Norman, in his evidence before the Committee of 1840, considers that a contraction of the circulation produces caution and *affects credit*, and that by the latter mode “it is *very effective*.” Mr. Loyd speaks of “not only the numerical reduction of notes, but the more important results which are evidenced by the shock given to confidence and credit.” In effecting their operation of reducing the quantity of currency, the whole fabric of credit is liable to be brought to the ground.

Credit currency is liable to abuse when left entirely free from all control. In times of confidence, both deposits and bills of exchange are no doubt created in excess, increasing thereby the intensity of the reaction, when want of confidence ensues: and even in the most ordinary times, it cannot be denied, that the system of credit in this country, from the operations of the wealthiest merchant, down to the little tailor and shopkeeper who sell upon credit, is pushed to a most unwholesome extent.

An able writer upon “trade and credit” after describing the mode in which such bills are manufactured and circulated, observes, “Let the corn-dealer, the silk-merchant, the metal-dealer, the

cheesemonger and provision-dealer, the manufacturer in every branch, review the mode in which our remarks apply to the particular branch of trade in which he is engaged; he will find no difficulty in satisfying himself, that there is over-trading in all branches to an alarming extent, and that there are people, with little or no capital, carrying on large business, manufacturers starting up, in some cases with their whole capital invested in machinery, and in others without any capital at all, hiring and paying a rent for the factory and its contents; *all issuing bills, drawing and accepting, and absolutely existing only on the credit attached to such paper.*"*

What we require, however, is not the heavy hand, which, when this system has reached its height of insecurity, would set to work violently to destroy it: but rather some preventive principle, by which the system of bills and credit may be secured from excess, or, if excess should arise, which will provide a safe and gradual cure. This I have argued, in the previous chapter, would in great measure be effected, by fixing a permanent rate of interest at the Bank of England, not below the average rate of interest of the country upon capital borrowed for the purposes of trade, that is to say five per cent. As a further safe and wholesome check upon bills and excessive credit, I think

* Remarks on Trade and Credit, p. 23.

a limitation of the advances of the Bank of England and all banks of issue, whether by loan or discount, to a period of *two months* might be most beneficially introduced into our system.

To conclude, I have endeavoured to establish,

- 1st.—That bankers' deposits and bills of exchange form a very large portion of the means by which property is transferred from hand to hand, and, coupled with other forms of credit, constitute a credit currency operating to an extent greater than the whole paper circulation of the kingdom.
- 2d.—That a system of currency acting as if it were exclusively metallic, would operate most injuriously upon this credit portion of the currency.
- 3d.—That a safe and legitimate mode of controlling credit currency would be, by fixing a rate of interest of 5 per cent. at the Bank of England, and limiting the period of advances by loan or discount to two months.

CHAPTER V.

THE FOREIGN EXCHANGES ARE NOT A SURE TEST, AT EVERY MOMENT, OF THE STATE OF OUR CURRENCY.

IN speaking in the foregoing chapters of the system which proposes to regulate our mixed currency, as if it were entirely metallic, I have observed that it has many and great imperfections : that under such a system, the steadiness of value of the currency, as a measure of value, could not be maintained : that no power of expansion and contraction, according to the wants of the community, could be provided for : that the currency would be made to follow in value, not only all the fluctuations of the metal standard indicated by the variations in the market price of the commodity—gold, but, through the operation of quantity upon credit, the currency would fluctuate in value to a much greater extent : that it would be the means of forcing issues when least required, and of withdrawing them in times of greatest need : and that by the violent operation of forced issues and contractions upon the prices of goods, the credit and commerce of the country would be continually endangered.

The advocates of the metallic system will pro-

bably admit the truth of these objections. But what rule or principle in moral science, it may be said, can be preserved without the assistance of checks and evil consequences surrounding it to prevent transgression beyond due bounds? The evils, then, complained of, it may be contended, are merely the necessary evils attendant upon a sound principle, and inseparable from the most perfect system of currency which could be devised. We must examine, then, a few of the principal arguments upon which this system is founded.

As there are but two uses of money which can be recognized, viz. its use as a measure of value, and its use as a representative of value, let us examine the arguments under these two heads.

As a measure of value, money is classed with the general weights and measures of the country, the one fundamental principle of which is fixedness. The use of weights and measures proceeds no further than measuring quantity. But money has the additional quality of being always exchangeable for what it measures, and the quantity required for the purposes of exchange must vary, of course, according to the quantity of property to be exchanged. The principle applied to its first use is fixedness; to its second, variability: and the great art in devising a system for regulating the currency is to preserve these two opposite principles entire; at the same time preventing the one from interfering with or destroying the other.

1st. With regard to money as a measure of value, Mr. Norman observes, "*the value of gold and silver, like all other commodities, depends upon their cost of production.* If a quarter of maize in Mexico, growing on the worst land in cultivation, is ordinarily produced by an expenditure of capital and labour equal to that which will ordinarily produce three dollars from the poorest mine which pays its expenses, not including rent, the average price of maize will be three dollars per quarter. I say the average price, taking a number of years into the calculation, *for at each particular moment the exchangeable value of silver will be regulated, like that of all other things, by the relative proportion of the supply and demand.*"* So far we are agreed. The *real* value of gold and silver depends upon the cost of production. Their *exchangeable* value upon the relative proportion of the supply and demand. Here, then, two distinct values, seldom coinciding with each other, are recognized in the standard metal; the one comparatively fixed, the other confessedly constantly moving. Which is to be preferred as a standard by which to regulate the value of our currency, considered as a measure? Mr. Norman prefers the exchangeable value, for he recommends that the value of the currency should be raised or depressed according to the market price of metal indicated by the exchanges. I venture to prefer the real value; and suggest that the ex-

* Letter to Charles Wood, Esq., p. 13.

changeable or market value, which varies from year to year and month to month, may be entirely disregarded, and that the currency may be preserved on a level with the *real* value by reference to the exchanges, not at the moments when they are operated upon by disturbing influences, to which they are ever liable, but after such disturbing influences are passed; or, in other words, by reference to the average result taken over a series of years.

But why do we differ in our choice of the two values of the metal standard?

1st. Because we estimate differently the extent to which the market or exchangeable value of gold may vary from its real value, and the extent to which prices must be forced in order to keep pace with the variation.

2d. Because it is thought we are liable occasionally to lose our standard metal altogether, and that there is no means of replenishing our exhausted stores when withdrawn, unless the value of the currency is forced up to a level with the deviation which has taken place abroad.

With regard to the first of these reasons, Mr. Norman has proposed the question,—“What are the necessary limits to that fall of general prices which is produced by an unfavourable exchange, and is required for its correction in a country whose currency consists of coin or convertible paper?” or, in other words, to what extent must the value of the currency be forced up before an unfavourable exchange will be corrected, in a

country whose currency consists of coin or convertible paper? "On the whole," he observes, "it is impossible to answer precisely the question proposed. I have heard it assumed that 5 per cent. would be the *maximum* fall in general prices that would arise from the necessity of making a foreign payment. My own opinion is, that under certain circumstances that limit might be considerably exceeded."

Now were the extent to which the value of the currency would be liable to be forced up, or the general level of prices were liable to be forced down, in order to correct an unfavourable exchange, limited to 5 per cent. as a *maximum*, we might possibly submit to it. But under what a vicious system of currency even then we should be living. How unsound in principle, that the measure of value should itself be forced to vary in value to the extent of 5 per cent. perhaps in the course of a few months. How pernicious in practice, that the borrower of £100 at the beginning of a year, should be compelled before the year is out to repay at the value of £105, besides the interest; that upon every mercantile transaction to the value of £10,000 there should be a loss at the end of the year of £500, and that an additional burthen, of more than a million and a half, should be suddenly laid upon the country, in the increased value of the ordinary taxes, at a moment probably of great commercial distress! But I think the limits of

variation may in fact far exceed 5 per cent. under an unfavourable exchange, met by a contraction of currency to the amount of bullion exported.

1st. Because the value of gold abroad would rise more considerably, when called for for military purposes, for remittances to provide for loans contracted with foreign countries, or to pay for importation of corn, &c. &c. if the resources of that great reservoir the Bank of England were withheld, as they necessarily would be, by raising the value of the currency on such occasions. For "if gold is wanted abroad, they may make it as scarce as they like, it will go."—"If 5 per cent. will not pay it 10 per cent. will be given."*

2d. Because the demand for gold being concentrated on the spot where gold is accumulated, that is London, the local influence of a comparatively trifling export would be immense, until time had distributed the effect in due proportion throughout the country.

3d. Because the currency of this country is not composed of money only, *i. e.* of metal and paper, but of these combined with a vast amount of *credit* in various shapes; and the amount of money cannot be altered to any great extent, without danger of destroying credit. It is the object of the system we are contending against, as we have seen, to operate upon prices through credit. But

* Mr. Rothschild's Evidence, 1832. No. 4,808.

when credit is affected, no one can say to what extent prices may be raised or depressed. The effect is as the rushing out of water when the banks of the dam give way : it is incalculable and uncontrollable. The Chamber of Commerce at Manchester in 1840, observes, " The rates of depreciation caused by the late panic upon all those great articles of production (cottons, woollens, silks, linens, and hardwares) may be gathered without difficulty from the prices-current of the spring and summer of 1837. They fell in price variously from 25 to 50 per cent."*

I think, then, that the evil consequences of contracting the currency according to the market value of the metal standard, or according to the fluctuations in the quantity of bullion, would be far more hurtful than Mr. Norman supposes, that the effects would be uncertain and bear no proportion to the ratio of reduction in the quantity of currency, and that the function of money as a measure of value, by the constant alteration of the value of the pound sterling which would take place, would thereby be completely destroyed.

Secondly, it is said that there are no apparent means of replenishing our exhausted stores of gold when withdrawn in consequence of a rise in value abroad, unless we force up the value of our cur-

* Report of the Chamber of Commerce of Manchester, 1840, p. 14.

rency to a level with the deviation which has taken place abroad, as would be the case with a currency purely metallic. "In fact," says Mr. Norman, "it never *could* necessarily be brought back, except by a proportional contraction of the paper money in England.*

Now this is a practical evil arising from the use of an article of merchandize as currency, in preference to the use of paper which is of no value for export, regulated in value according to the value of any chosen article of commerce. Our currency is occasionally wanted as merchandize, and when we have parted with a portion of it, the whole currency is disturbed to bring it back. But I do not perceive how the system, which would reduce the quantity of currency to the precise extent of the quantity of efflux of metal, would be in a better position, with regard to bringing back exported metal, than the system which would allow the export to take place, and leave the quantity of currency unaltered, provided the export of metal were the result of circumstances in trade, and not of forced and excessive issues of currency.

To take the case put by Mr. Norman, "of a sudden demand upon England for a foreign payment to the extent of five millions sterling, *the currency having been previously in a wholesome*

* Letter to Charles Wood, Esq., page 93.

state,"* I admit that a contraction of the quantity of currency at home, while at the same time we are increasing its quantity abroad by export of metal, will, in course of time, bring the value of metal in England to a level with its value abroad, and also prevent so great an efflux as would take place if no contraction of the currency at home was effected. But can this operation do more than produce a level? Certainly not. And if metal be merely brought to a level in value in England and on the continent, there is no apparent reason why lost treasure should return. On the other hand, by allowing five millions of metal to leave the country for the purpose of settling the sudden payment required, without altering the quantity of currency, we should equally bring metal on the continent to a level with metal in England, producing after the operation neither tendency to influx or efflux of metal. As regards then the recovery of *lost* treasure, neither system is preferable to the other. The quantity lost might be somewhat less on the first system, though, from the want of immediate effect upon the value of the currency and upon prices, the whole benefit of the reduction of currency at home would not be gained. The evils, however, resulting from the process proposed, far outweigh the slight benefit thus produced. In the first place, the value of the currency,

* P. 93.

admitted to be "previously in wholesome state," is somewhat raised, in order to produce a level.* In the next place, as a mere level of value will not produce a voluntary return of treasure to the country, it is requisite that the value of the whole currency should be raised so much *above* the value of foreign currency, as will pay for the expense of importation, with a profit to the importer. That is to say, if 1 per cent. be sufficient to pay the expenses with a profit upon an importation of five millions of gold, the whole currency of the country, perhaps one hundred millions of metal, paper, and credit combined, must be raised in value to the extent of 1 per cent. above the value of metal abroad, in order to bring about an importation to that extent; and in the attempt to do so, as I have before observed, a variation is sometimes effected in prices of from 25 to 50 per cent. We find, therefore, the advocates of this system compelled to recommend a crusade against credit, until, by violent shocks and restraints, the credit currency is broken up, and "more or less of distress is produced," so as to raise the value of the currency *above* what it would be were it exclusively metal. Thus violating their own principle, injuring trade, and utterly destroying the most important function of money—its power of measuring value.

There are two or three alternatives, as I shall pre-

* See p. 134.

sently show, by means of which supplies of bullion, for the purpose of conversion of notes into specie, may be provided without thus meddling with the value of the currency, the most inconvenient of which is, that the Bank should be at the expense of purchasing the requisite supplies from time to time at the cost, perhaps, of £10,000 or £20,000 per annum.

Again, Mr. Norman observes, "The only real test" (of the sufficiency in quantity or otherwise of the currency) "is the state of the exchanges, which express accurately the relations of the currency of one country to those of others, and tell us whether it be in exact equilibrium—above that point, or below it."* Now this is not true, except with much qualification. It is true that the exchanges, taken over a series of years, accurately express the value of the currency of one country compared with that of any other; as, for instance, between this country and Buenos Ayres, a permanent adverse exchange for many years past has indicated a wide deviation in the currency of that country from its standard, the paper dollar being not worth more than from 3*d.* to 6*d.* English, as was the case also between the Continent and England during the Bank Restriction Act. But I deny, that the sufficiency or otherwise of the currency in any country, can be accurately measured by the state of the exchanges, at any one particular moment. The

* Letter to Charles Wood, Esq. p. 32.

exchanges are, as it were, the channels through which the overflowings of the currency of one country are distributed over others in connexion with it. These channels are sufficient, indeed, for the ordinary purposes of distributing the streams of influx or efflux, in ordinary times, in due proportion over the commercial world. But they are liable to local influences, and become violently affected in particular quarters, by any sudden or rapid current forcing itself in any particular direction. Thus, for instance, a large subsidy to a foreign country, an unusual importation of corn, or a sudden breaking up of credit in a neighbouring nation, may so operate upon the exchanges, as to render them for the moment the most unfit test of the sufficiency or otherwise of the currency of any country. As well might we attempt to measure the ordinary weight of the atmosphere, by the indications of the barometer under the influence of a tropical storm, as to test the state of the currency by the exchanges at such moments. Yet these are the moments, which the advocates of the metallic system would recommend, for rectifying the currency, by increase or diminution of its quantity. The *market* value of our currency *abroad*, it is true, will be accurately measured by the state of the exchanges at such moments, (for as forced issues of paper money affect the value of currency at home, so excessive issues of bills of exchange upon England affect its value in foreign markets,) but the market value

may have deviated considerably in particular quarters from the real value, whilst, in fact, the currency at home may have remained undisturbed, and steadily fixed on a level with the real value of the standard.

It would be incorrect then to say that the exchanges at all times test the sufficiency, or otherwise, of the currency. And by raising or depressing the amount of currency in strict accordance with the indications of the exchanges, we must necessarily create greater variations in the value of money as a measure, than take place in the real value of its standard. It was laying down a great principle, when the Bullion Committee pointed out the exchanges as the proper test of the value of the currency of one country with reference to that of another. Practice, however, I think, has shown that in adopting this test we must allow for the temporary variations to which the exchanges themselves are subject.

II. With regard to money as a representative of value.

As a representative of value, or as that which is exchangeable for every thing at all times according to its value, the quantity of money required at one time and another must depend of course upon the quantity of property to be exchanged. I have assumed, therefore, as the second leading principle in the currency, that it should be provided at all times according to the wants of the community. The advocates of the metallic system,

on the other hand, contend that the quantity should be regulated according to the influx or efflux of metal. "I propose," says Mr. Loyd, "fluctuations of the bullion as the standard measure by which to try a paper currency, and by that measure to regulate the quantity."* Now our inquiry is, by what arguments this latter proposition is supported.

Let us take a remarkable instance of efflux of bullion which has occurred lately, viz. in 1838 and 1839, during which Mr. Loyd has recommended the application of his system; and observe how he reasons upon it. In his second Letter to Mr. Smith, President of the Manchester Chamber of Commerce, Mr. Loyd observes :

"There appears to be every reasonable ground for believing that the circulation, previous to the harvest of 1838, *was in a sound and satisfactory state, and that it would in all probability have continued so*, if the harvest of the year had been sufficient for our consumption without the aid of foreign supplies A sudden import of corn, rendered necessary by the misfortune of the season, and a demand for gold as the only means of making an immediate payment for it, at once deranged the condition of the circulation, which was otherwise in a correct state. In this emergency, two courses were open to the manager of the circulation. First, to effect a contraction of the issues in correspondence with the demand upon the bullion, and to maintain this contraction until the drain should cease. I need hardly say that in accordance with the principles for which I contend, this is the course which I conceive ought to have been pursued. But, second, the manager of the circulation might consider the

* Second Letter to Mr. Smith, p. 6.

drain upon the bullion as arising, not from a general excess in the amount of the circulation and consequent depreciation of its value, but from an accidental and isolated circumstance, that the drain would cease with the cessation of the cause, and that the gold required to pay for the imported corn might be supplied from her existing store, without the necessity of resorting to a corresponding contraction of the circulation, which must produce inconvenience and pressure to the community. The Bank, I infer from the character of her measures, adopted this view; and hence arose the tardy and insufficient contraction of her issues. I do not defend this course; *it seems to me inconsistent with sound principle, and dangerous in its consequences.*

The Bank did not throw upon the market an additional supply of paper money, but she delayed to contract the existing circulation with the same rapidity with which the gold went out. The effect of this was, not a consequent rise in the price of commodities, *but a check to the suddenness and the extent of the fall which would otherwise occur*, and a consequent continuance of the drain of bullion, until the stock in hand was all but exhausted. A desire to protect the mercantile and trading community from a pressure originating not in their own miscalculations, but almost entirely attributable to unfortunate seasons and impolitic legislation, induced the Bank to adopt a course which brought herself into considerable embarrassment, and *endangered the convertibility of the notes. A strict regard to principle compels us to condemn this course.**

Here then we find it admitted, that, in 1838, the currency "was in a sound and satisfactory state," and on a level therefore with its standard. "A sudden import of corn, rendered necessary by the misfortune of the season, and a demand for gold as the only means of making an immediate payment

* Second Letter to Mr. Smith, page 30.

for it, at once deranged the condition of the circulation." The Bank did not think it proper to reduce its issues in proportion, and Mr. Loyd makes three objections to the course which was pursued.

1st.—That that course was "inconsistent with sound principle."

2d.—That "the effect of that course was, not a consequent rise in the price of commodities, but a check to the suddenness and the extent of the fall which would otherwise occur."

3d.—That "it endangered the convertibility of the notes."

First, why was the conduct of the Bank "inconsistent with sound principle"? Because "a paper circulation is the substitution of paper, with the view to economy and convenience, in the place of the precious metals. The amount of it ought, therefore, to be equal to what would have been the amount of a metallic circulation, and of this the best measure is the influx or efflux of bullion. On this ground I must assume," says Mr. Loyd, "that fluctuations of the bullion constitute the correct standard by which to measure a paper currency." * The charge, then, of deviation from sound principle against the Bank, amounts to this, that it suffered our mixed currency to differ in its action from that of a purely metallic currency. But is it self-evident, that because paper is a substitute for metal, that it should therefore follow the

* Ibid. p. 7.

action of metal? I have before quoted a passage from Mr. Ricardo, showing his opinion of the advantages of a paper currency over a metallic currency,* as capable of being preserved of a more uniform value than a metallic currency; and I think I have said sufficient in the foregoing pages to prove, that there is no reason for us to be too desirous of bringing the working of our currency to the abrupt action of one purely metallic. The soundness or unsoundness of the course pursued by the Bank then remains unaffected by this assertion, and is still the question.

Secondly, the conduct of the Bank, in not contracting its issues, gave "a check to the suddenness and the extent of the fall of prices which would otherwise have occurred."

This is indeed putting forward the system in a most glaring light, and nothing but the strongest conviction in the mind of Mr. Loyd, of the necessity of his system, could have induced him so broadly to state its consequences. He is fully aware of the evils resulting from his recommendation; for, he observes, "The stern and iron virtue of former ages, which compelled the administrators of law to suspend every tender or sympathising feeling in the enforcement of its severest edicts, is the proper example for the Bank."†

Now the simple statement of the principle, that *sudden falls* in the prices of goods are occasionally

* See page 33.

† Second Letter to Mr. Smith, page 33.

required, in order to preserve the integrity of this system, is, in my opinion, sufficient to condemn it. It is, in other words, to say, that the occasional sacrifice of a few innocent merchants and traders is necessary in order to uphold it. In the instance before us the currency was in a *sound and satisfactory* state by admission, "and of the general *soundness of trade* at that time probably the best proof is afforded, by the extraordinary firmness with which it has sustained the subsequent pressure."* It is not even hinted that prices of goods were then above their proper level. The misfortune of the season, however, obliged us to import corn, and gold was required to pay for it. The strict principle of the system required, that the currency should be raised above its standard value to prevent the efflux of gold, that the relative position of creditor and debtor should be destroyed, that the unfortunate trader upon borrowed capital, or upon credit, should be compelled to bring his goods to market, at a moment when no one could be willing or able to buy, from the state of money, that *soundness of currency* should be suddenly converted into *unsoundness*, and *soundness of trade* into *distress and ruin*. Nothing but the plea of absolute necessity can justify such a system. But why, we may inquire, are such evils declared to be necessary? Because, thirdly, it is said, that "the maintenance of specie payments is the one sacred duty imposed upon the Bank," and weakness

* Ibid. page 30.

or sympathy on such an occasion, “endangered the convertibility of notes.”

It is, then, on the plea of necessity, that we are recommended to subject ourselves to such dire calamities: that is to say, it is to avert the much greater calamity, as is supposed, of risking the temporary inconvertibility of notes into specie, that, upon every tendency to efflux of gold, we are called upon to submit to the minor calamity, as is supposed, of the risk of the entire subversion of trade and credit, frequently with millions of useless specie in the coffers of the Bank, and also to see our currency forcibly driven from the value of its standard metal.

I will reserve this important question of convertibility for consideration in the next chapter, and will now conclude with these two observations:—

1st.—That a slight variation in the value of gold abroad, may cause a considerable variation in the quantity of gold at the Bank, and that by varying the quantity of currency in exact accordance with the fluctuations in quantity at the Bank, the value of the currency may be caused to vary in a greater degree than the value of gold itself.

2d.—That though the exchanges are the proper test of the value of the currency of one country compared with that of another, when taken over a series of years: yet being themselves liable to temporary and local influences, they are by no means a sure test of that value at any particular moment.

CHAPTER VI.

CONVERTIBILITY OF NOTES INTO SPECIE IS NOT
NECESSARY, AT ALL TIMES, IN ORDER TO PRE-
SERVE THE VALUE OF THE CURRENCY.

WE now come to consider how far the enforcement of convertibility of notes into specie at all times, and under all circumstances, is absolutely necessary to the due regulation of the currency. If, as Mr. Loyd observes, "the maintenance of specie payments is the *one* sacred duty imposed upon the Bank;" and if with Mr. Norman we agree, that "convertibility is the first and most important quality that should belong"* to Bank-notes, and that nothing must be allowed to endanger this principle; and if with the late Committee of the House of Commons, we admit that the Directors of the Bank of England should regulate their issues, upon such principles as they may consider best "adapted for the *primary object of preserving under all circumstances* the convertibility of their notes;" then must we take "fluctuations of the bullion as the standard measure by which to try a paper currency:" and, however inconvenient or disastrous the result, we must periodically submit to the evils incident to a

* Letter to Mr. C. Wood, page 25.

forced variation of quantity, as necessary to the preservation of the principle of convertibility.

But, on the other hand, I maintain, that there are two paramount duties to be performed by the Bank: first, to preserve the value of the currency as free as possible from variation: second, to supply it in quantity at all times in proportion to the wants of the public; and that convertibility is merely a subordinate means towards the accomplishment of the first of these ends. If, therefore, it should be found that the principle of convertibility is liable at any time to interfere either with the value of the currency, or the quantity required, in such cases it appears to me that the minor principle should be made to yield to the major, that as a means proposed, towards a certain end, and not the end itself, the principle of convertibility should give way to the more important object of securing the end in view. I shall endeavour, then, to show,—

- 1st.—That, when the currency is not in itself unsound from excessive issue, the principle of convertibility may be suspended in cases of emergency, without danger to the value of the currency.
- 2d.—That, in some cases, the enforcement of the principle of convertibility is destructive both of the steadiness of value of the currency, and its power of adapting itself in quantity to the wants of the public.

But few words, I believe, will be necessary with

regard to the first of these propositions. It is admitted by all, and is a fundamental principle with those, who advocate a paper system regulated as if it were metallic, that quantity affects value, and that by limitation of quantity, paper may be forced even above the value of the metal which it represents. It is clear, then, supposing the quantity of currency to remain the same, that, *cæteris paribus*, it is of no importance to the value of the currency whether paper be convertible into specie, or whether specie payments be suspended.

Specie payments were suspended in 1797, yet for several years the value of the paper currency was maintained; and had the quantity been constantly regulated with reference to the indications of the exchanges, or the price of gold, there is no doubt that the value might have remained undepreciated throughout the period of restriction. Again in 1825 a partial suspension of specie payments took place. For gold being then nearly exhausted at the Bank, an issue of one pound notes in aid, to the extent of about £1,000,000, was resorted to with the most beneficial effect. This partial infringement, however, of the principle of convertibility did not interfere with the value of the currency to cause its depreciation, for we know that from the reduction of quantity the value was so raised as to produce a large influx of metal in the course of 1826.

I am not now contending that it would be advisable permanently to suspend the principle of

convertibility; but merely that it is not requisite to enforce it at all times for the purpose of supporting the value of the currency, and that it may be safely dispensed with in certain cases without danger of depreciation. Such a case was that alluded to by Mr. Loyd in 1838-1839, when trade being perfectly sound, prices not deranged, and the currency in a wholesome state, £10,000,000* was called for to pay for corn imported. It would have been safer and wiser, had it been necessary, in that case, to have sacrificed convertibility to soundness of trade and currency, than soundness of trade and currency to the preservation of the principle of convertibility. Fortunately we were not reduced to the alternative, though the danger was but barely avoided.†

The two instances of 1797 and 1825 are sufficient I think to support the assertion, that when the currency is not in itself unsound from excessive issue, the principle of convertibility may be suspended on emergency without danger to its value.

Secondly. In certain cases, the enforcement of the principle of convertibility is destructive of the steadiness of value of the currency, and also of its power of adapting itself in quantity to the

* Mr. Palmer's Evidence, 1840. No. 1,364.

† The Bank offered the dead weight for sale without success, borrowed £750,000 in exchequer bills from the East India Company, and between two and three millions of the Banks of France and Hamburg.

wants of the public. There are but two methods of obtaining a supply of gold, one of which must be occasionally resorted to, if notes are at all times to be convertible into specie. The first is by purchase and direct importation, the second by so raising the value of the currency as to produce a voluntary importation. But we have seen that the demand for gold abroad may become on certain occasions so intense, for instance when required for military purposes, that even 5 or 10 per cent. premium will be given to procure it. The demand at home for specie may become equally intense, for instance, as in 1797, from the fear of invasion and consequent desire to hoard; or, as in 1832, on a smaller scale, when many were fearful of revolution from the political agitation of that period. In such cases it is in vain to attempt to procure a supply of gold by purchase in the market: for if the Bank be compelled to deliver gold for notes at the Mint price, every increase of demand in the market, can only have the effect of increasing the draft upon the Bank itself for specie.

The alternative, then, must be resorted to, of so raising the value of the currency by reducing the quantity, as to throw part of the demand upon other countries; and further, as the advocates of the metallic system would recommend, by so forcing the value at home, above even its value so appreciated abroad, as to produce a voluntary

reflux of lost treasure back into the coffers of the Bank. Thus producing a struggle between the foreigner and the Bank for the possession of gold. The effect is much the same, as when two bidders at an auction are bent upon possessing the same article put up for sale. The extent to which its price may be raised above its value is unlimited. Thus the enforcement of convertibility at such times, necessarily produces a course which is destructive of the steadiness of value of the currency ; and in pursuing that course, the principle of supply in proportion to the wants of the community, at a steady value, at such times, must necessarily be laid aside.

Having thus shown that convertibility at all times is unnecessary, and that to attempt to enforce it at certain times is dangerous, I will now propose two regulations allowing the temporary and partial suspension of this principle, by which I think the steadiness both of trade and currency would be much promoted in times of difficulty.

1st. That the managers of the currency be at liberty at any time, under certain penalties, to issue £2 and £3 notes in aid of their reserves of specie.

2d. That under further penalties, £1, £2, and £3 notes be declared legal tender by banks of issue.

By means of these two provisions, I think, the value of the currency might be preserved more free from variation, during those periods when it is

liable to be violently operated upon by extraneous causes, than it would be under a system of constant convertibility; and that the supplies of currency might be continued as usual amidst difficulties, which, under our present system, frequently cause the entire derangement of the operations both of currency and commerce.

As silver would still continue a legal tender as now, to the value of £2, there would be no difficulty in effecting the smaller payments in coin; and as it is issued at the Mint and passes current, at about $6\frac{1}{2}$ per cent. above its real value, a protection would be afforded to that extent against export of silver coin, though the value of silver bullion for the time in the market might increase with the increased value of gold.

In the event, however, of a temporary or partial suspension of payments in gold according to the above regulations, it would be necessary to provide,

1st. Against tendency to over-demand for paper on the part of the public.

2d. Against over-issue on the part of the Bank for the sake of increased profit.

3d. That it should become more for the interest of the Bank, after a certain period, to return to payments in gold than to continue the suspension.

Against over-demand for currency on the part of the public, I have already suggested that a portion of the issues of the Bank should be always made upon discounts and temporary loans

terminable in not more than sixty days, and at an interest not below 5 per cent. This provision would be equally effectual in times of suspension and in times of convertibility, as there would be no greater temptation to excess at the one time than at the other.

With regard to the increased profit upon the issue of notes, necessarily accruing to the Bank from a suspension of payments in gold, I think it would be reasonable, considering that the Bank would be called upon to purchase gold abroad from time to time at a loss, that part of the profits so derived should be retained by the Bank ; and I propose, therefore as a guard against over-issue, as a penalty on suspension, and as a stimulus to return to gold payments,——

3d. That after the expiration of one year, taken from the issue of the first £2 or £3 note, during which the Bank shall receive the full profit upon such issues, interest at the rate of 5 per cent. per annum be paid to Government upon all such notes outstanding from day to day for the first ensuing year, and at the rate of 10 per cent., for any period exceeding two years, till public notice be given calling them in : that upon all issues of £1 notes interest at the rate of 5 per cent. per annum be paid to Government from the date of issue for the first year, and 10 per cent. for any period exceeding one year, till such notice ; and that the value of all notes under £5 unredeemed six months

after notice be carried to Government account till presented for payment.

By means of these provisions, the Bank would find it more advantageous, after two years of suspension, to return to specie payments rather than continue the suspension; and the profit upon the increased issue of notes during the first year, and during the period previous to suspension, when the stock of bullion in hand being much reduced, the expense of holding it would be saved, would amply provide the means for repurchasing gold as soon as the temporary demand should have subsided, without expense to the public, and with no additional burthen upon the Bank. Moreover, should circumstances be such as to make a more continued suspension of specie payments necessary, as, for instance, such a state of derangement as occurred during the last war, provision would thus be made for such an occasion, without the necessity of applying to Parliament, without in any way disturbing either the value or quantity of the currency, by the Bank continuing the payment of 10 per cent. to Government upon all notes under £5, with the strongest desire to seize the first opportunity of returning to a system of convertibility.

It is presumed that, except in most extraordinary times, in the course of two years any temporary derangement in the value of metal from external causes, would have had time to subside. Should

there, however, be found at the expiration of two years a want of equilibrium in the currency of this country compared with the currencies of other countries, as indicated by the state of the exchanges, leading to the suspicion that excess or deficiency of quantity might exist in the currency, the principle of regulating the quantity by means of raising or depressing the rate of interest should then be gradually brought into operation. I propose, therefore,

4th. That after two years' uninterrupted continuance of adverse exchange with Paris and Hamburg, to the extent of $\frac{1}{2}$ per cent., the managers of the currency be at liberty, *as long as the exchange so continues*, to raise the rate of interest upon their advances to $5\frac{1}{2}$ per cent. for the first six months, and 6 per cent. for any period exceeding six months; or after two years of uninterrupted continuance of favourable exchange to the same extent, to lower the rate of interest upon advances to $4\frac{1}{2}$ per cent. for the first six months, and 4 per cent. for any period exceeding six months.

Lastly, under such a system, by which the Bank would be prohibited from raising or depressing the value of the currency at will, for the purpose of adjusting its supplies of bullion, it may be asked, in what way should it proceed, from time to time, to replenish its exhausted stores of bullion when parted with to meet an unfavourable exchange, and how could it return to convertibility of notes into

specie? This, I reply, would be a matter entirely for the consideration of the Bank. As long as the country should remain unprovided with specie in exchange for notes when required, the Bank would continue subject to the penalty of 10 per cent. on the amount of its issues of notes under £5. And it would be a matter of calculation, at what particular moment, and by adopting what particular course, the least expense might be incurred in returning to specie payments. That the expense of purchasing gold for redeeming their notes should fall upon the Bank, I consider perfectly just. For as the substitution of paper for metal has been, or at any rate now is, permitted for the purpose of improvement of the currency and the convenience of the public, and not for the purpose of private profit, the first profits derived from the substitution of paper for metal should of course be applied towards the expense incident to the substitution. But I maintain that the expense to the Bank of repurchasing gold, under the system I propose, would be less than the expense incurred under the present system. For, upon the average of years, it could not have to purchase more than one or two millions of gold per annum, at a premium, perhaps, of 1 per cent., that is to say, at a cost of from £10,000 to £20,000 per annum. The additional economy introduced, however, by enabling it to bring its whole stores of bullion occasionally into operation, would amply repay such a cost. Many

millions of bullion remain idle and useless in the Bank, under the present system, at a cost of about £40,000 per annum upon every million so retained.

The Bank would have the choice of several different modes of acting, for the purpose of providing bullion, according to the state of circumstances and exchanges at the moment.

1st. The Bank might make no movement at all to replenish its stores of bullion, but quietly wait for the reflux of gold, which would naturally take place from the state of trade between this and other countries, which ordinarily results in a balance of payment in our favour, our imports being chiefly of raw goods, our exports of manufactured, with the addition, of course, to their price of the value of the labour bestowed upon them. Or should this natural balance in our favour be disturbed by loans of capital to foreign nations, the Bank might think fit to wait for one of those periods of reverse in trade, to which we shall probably ever be liable, when credit becomes shaken, and the balance of payments has a tendency to become favourable to the country, by the increase of export and decrease of import, which is the natural result of discredit. Such, I conceive, to have been the course pursued by the Bank through 1841, during which time about £3,000,000 of gold has flowed back into its coffers, without any effort, I believe, on its part to recover it.

2d. The Bank might proceed to import gold from

abroad, at an expense, perhaps, of 1 per cent. or £10,000 per million.

3d. There are cases when the Bank might think it expedient to withhold specie payments, even with gold in their coffers, and to issue £1, £2, and £3 notes for a season, until some sudden cause of disturbance might have overpassed, thus leaving their stores of bullion undiminished when the temporary cause of demand should have ceased. Such a course might be pursued, perhaps, in the extreme cases of the breaking out of war on the continent, a threat of invasion of this country, or the case which has been supposed possible, of a combination for political purposes against the Bank, with the object of exhausting its stores, and so creating confusion and alarm. It would be for the Bank, as I said before, to decide which of these courses it might pursue. What the public would require, and what I propose it should have the power at all times of claiming for itself, would be, that, whatever the state of politics or credit at home or abroad might be, and however agitated the price of the commodity which we have chosen as our standard, the quantity of currency should be apportioned as usual to the demand, and its value preserved as free as possible from temporary and external causes of disturbance. These advantages, I maintain, might be secured under the system I propose, and yet the principle of convertibility might not be actually suspended, under ordinary management, once in twenty years.

There are many and various ways in which the currency is liable to temporary derangement, and the mode of treatment in each particular case should of course be adapted to the nature of the cause in operation. A great imperfection in the system which would regulate our currency as if it were exclusively metallic is, that it allows but one mode of treating all the different circumstances. The one remedy is reduction or increase of quantity. The one object aimed at convertibility of paper into specie.

Let us briefly recapitulate some of the various causes of temporary derangement to which the currency is liable, and see how far the power of suspending the principle of convertibility would enable us to mitigate or neutralize their effects, and prevent them disturbing the steadiness of value of the currency, or interfering with the requisite quantity of supply. With regard to *permanent* causes of variation in the value of the currency I have at present nothing to say, except that currency must of course vary in value with every permanent variation in the value of its standard.

The currency may become *temporarily* deranged from causes operating either at home or abroad.

At home, causes may act either upon the metal, paper, or credit portion of the currency.

From abroad, the currency may be acted upon, by causes affecting either the metal or credit of foreign nations, or by derangement of the ordinary

balance of bills of exchange between this and foreign countries.

1st. By a temporary action upon *metal* at home.

The Bullion Committee of 1810 observe “ a very urgent demand for guineas though arising *not from the high price of gold and the state of the exchange but from a fear of invasion*, occurred in 1793 and 1797, and in each of these periods the Bank restrained their discounts and consequently also the amount of their notes very much *below the demand of the merchants*. Your Committee *question the policy of thus limiting the accommodation in a period of alarm unaccompanied with an unfavourable exchange and high price of bullion.*”* Here then we see that the doctrine of providing currency in quantity proportioned to the demands of the public, notwithstanding the diminution of the stores of bullion *from internal demand*, is as old as the year 1810. The Bullion Committee, however, did not point out by what method the same accommodation might have been kept up, and the discredit of a suspension of cash payments avoided. Had the Bank, as I propose, been authorized in 1797 first to issue £2 and £3 notes in aid of their reserves of specie, and secondly to issue £1 notes if further pressed upon, it is quite clear that the convertibility of notes into specie never would have ceased, as we find that one million of treasure still remained un-

* Bullion Report, p. 20.

touched in 1797, which in the course of the few first years of the Restriction Act increased to upwards of six millions.

2d. By a temporary action upon *paper* at home.

In the year 1825-6 by the failure of upwards of 70 country banks, brought on in some measure by the sudden contraction of the circulation of the Bank of England, to the extent of above two millions and a-half in the course of four months, the whole paper circulation of the provinces was thrown into a state of discredit, and a great portion of it entirely destroyed. The crisis was such as this country had never before experienced. Every one pressed for gold, for such was the panic, that we were said to be within a few hours of barter, and the rumour of the suspension of cash payments by the Bank added greatly to the alarm. The treasure of the Bank was nearly exhausted. In this emergency *a temporary issue of £1 notes was resorted to with the most perfect success.* The aid afforded by the issue of little more than one million of these notes, enabled the Bank to economize its small remaining treasure, and convertibility of notes into specie never actually ceased. These notes were gradually withdrawn in the course of the following year, without the slightest evil effect. Though late, the Bank also at length adapted its supplies of currency to the wants of the public by raising its issues of notes, from £17,477,290 in December 1825, to £25,115,170 in March 1826.

Here then is an instance of the successful operation of the expedient I propose, and had it been earlier resorted to, no one I think can doubt that much of the evil which was experienced by the public at that period would have been avoided. Discredit, then, in the *paper* circulation of the country leading to an unusual demand for gold, is not a case for decrease of accommodation to the public.

3d. By a temporary action upon the *credit* currency at home.

“ Whenever merchants have a want of confidence in each other,” observes Mr. Ricardo, “ which disinclines them to deal on credit, or to accept in payment each other’s checks, notes, or bills; *more money, whether it be paper or metallic money* is in demand: and the advantage of a paper circulation when established on correct principles, is, that *this additional quantity* can be presently supplied without occasioning any variation in the value of the whole currency, either as compared with bullion or with any other commodity; whereas with a system of metallic currency this additional quantity cannot be readily supplied, and when it is finally supplied the whole of the currency, as well as bullion, has acquired an increased value.”*

Instances of want of confidence between merchant and merchant, and of more money in conse-

* Proposals for an Economical and Secure Currency, p. 13.

quence, being required, are innumerable. But as want of confidence amongst merchants is most frequently accompanied by adverse exchange, and decrease in the stores of bullion, arising from the same cause which has created that want of confidence, viz. overtrading, we have always found, and the advocates of a metallic system uphold the process, that a decrease instead of an increase of quantity takes place.

There is no method of meeting these two contending claims for currency, but by allowing that portion which is of value abroad freely to go abroad, to meet the unfavourable exchange, and by increasing that portion which is of value at home, to meet the increased demand at home, till credit is restored and unfavourable exchange brought to par. A temporary issue of notes under £5 is a proper and effectual remedy I think for all such cases.

4th.—By a temporary action upon *metal* abroad.

I cannot do better than repeat the words of Mr. Rothschild, so often quoted, as an instance of this cause of temporary disturbance in the currency. "If gold is wanted to send abroad, they (the Bank) may make money as scarce as they like: it will go, because for what reason is gold wanted? Gold is wanted if there is a war, and in that case foreign governments will give two or three per cent. more or less for the gold because they must have it. When the Emperor of Russia made war in Poland lately gold which went from Hamburgh to Petersburg

and Warsaw was paying from three to four and five per cent. profit. If five per cent. will not pay it, ten per cent. will be given."

It is needless to repeat that a drain for gold, from such a cause as this, is no just ground for withdrawing the ordinary supplies of currency from trade, and putting the whole public to inconvenience. If gold, however, is permitted to leave the country, at the Mint price, on such occasions, (the expediency of which I doubt,) and the danger of exhaustion of our stores of specie is the consequence, a temporary issue of small notes is the only mode of preserving the equilibrium of the currency at home.

5th. By a temporary action upon *credit* abroad.

Every one, who is in the habit of giving attention to the fluctuations in the currency, must be aware of the powerful influence of the state of credit in the United States, from 1836 to the present time, upon the monetary affairs of this country; a state of shattered credit, which, except for the fact of that country being deeply indebted upon balance to Great Britain, would have caused a much more violent effect upon our stores of treasure than has taken place. The difficulties in the United States, however, might have been much mitigated, had it been permitted, or possible for that country to have parted with its specie in payment of its foreign debts, substituting paper, under penalties, as a temporary supply. Unfortunately, absence of specie

in that country had previously been the rule, rather than the exception in the currency, and thus they were deprived in their distress of reserves, which, under the system I propose, would have proved invaluable.

But the breaking up of credit in the United States does not necessarily imply unsoundness in trade or currency in Great Britain; and should our specie, therefore, be called for, for the purpose of supplying the place of credit for a time in the United States, it is no reason why our merchants here should be restricted in their supplies, and made to partake in the consequences of the misdeeds of another nation. Affected they will, and must be by the failure of credit in any part of the world, but the consequences need not be aggravated by forced diminution of our currency. A temporary issue of small notes, and a partial or even total suspension of convertibility for a time, would clearly be preferable to such a course, if required.

6th. By derangement of the ordinary proportion of bills of exchange between this and foreign countries.

Bills of exchange are a species of international currency. They measure also the value of the imports and exports of a country in ordinary times. The value of imports and exports, as measured by bills of exchange, ought nearly to balance, with a tendency to excess of value on the side

of exports in this country, as our imports chiefly consist of raw material, our exports of manufactured. But the balance of bills may suddenly turn against the country, from speculative importation of raw goods, in anticipation of markets which may never require our manufactured goods, or from failure of harvests and necessary importation of corn, and this is the most powerful and the most frequent cause of unfavourable exchange, and consequent demand for specie. Again, when we undertake to invest a large portion of our surplus wealth in foreign countries, as in 1824 and 1825, when we came under engagement with different parts of South America, to supply to the extent of, perhaps, twenty millions sterling, for the mining operations and loans to the Republics, and, as in 1838 and 1839, when we invested, perhaps, to the extent of ten millions sterling, in North American securities, the balance of bills drawn upon this country, beyond the bills drawn by this country upon others, must, of course, have been increased, on these occasions, to the extent of the additional amount for which we were engaged. This could not fail to have a powerful temporary effect upon the value of bills abroad, and the exchanges, therefore, were considerably against us, till export of goods or specie had equalled the extra amount.

The balance of bills of exchange, in favour of or against such a country as this, must necessarily vary from time to time, and to an enor-

mous extent, as capital increases beyond the means of employment, or the means of employment beyond capital. But this balance of trade does not necessarily imply any thing unsound in the currency, either as deficient or superabundant in quantity, or as having deviated in any way from its proper value. I maintain, then, that when no unsoundness, from deficiency or superabundance of currency, can be proved, there is no sufficient reason, from the fact of adverse or favourable exchange for a time, for altering the quantity of currency, or for taking measures injurious to commerce, for the purpose of maintaining convertibility of our currency.

If, from the use of an article of commerce for the purposes of currency, we are occasionally liable to lose that article for a time, owing to the state of the balance of trade, it will be safer, and, as I have shown, less injurious to commerce, to supply its place for a time with that which we are equally well satisfied with, viz. small notes, provided our article of currency is returned to us after a reasonable period of absence, than to attempt to prevent its leaving the country by tampering with its value. It is, perhaps, not generally known, that, by the late fire at the Houses of Parliament, we are at this moment deprived of most of the standard weights and measures of the kingdom, and that a committee of scientific men have just reported upon the best means of restoring and preserving them. There is no

doubt that a prolonged absence of these standards, thereby preventing occasional rectification of our weights and measures, would in the end prove highly injurious ; and we should soon be left with a great variety of different weights and measures, no one being able to certify which might approach the nearest to the true standard. We have, nevertheless, been able to part with these standards for a time, without falling into any such difficulties, and the more readily as we are in the habit of using them merely for the purpose of reference, not for the daily purposes of measurement. And so with the commodity which we have chosen for the standard of our currency, we can afford to part with it for a time, if required, without much danger of variation in the value of the currency during its absence. To insist then upon the constant use of the standard itself, for the purposes of measuring value, instead of preserving it, merely for the purpose of reference, in other words, to insist upon convertibility, at all times, as the one sacred duty imposed upon the Bank, and as the first and most important quality of bank-notes is, as I have endeavoured to show, a doctrine not founded on principle, and in practice as unnecessary, as it is at times pernicious.

CHAPTER VII.

LET us now recapitulate the various principles and suggestions which have been advanced in the foregoing pages.

In the first place, I have endeavoured to show that the currency is composed of three elements ; not of metal and paper only, but of metal, paper, and credit combined : that bankers' deposits and bills of exchange form a very large portion of the means by which property is transferred from hand to hand, and coupled with other forms of credit, constitute a credit currency operating to an extent greater than the whole paper circulation of the kingdom. In reasoning, therefore, upon the effect of the currency upon prices, or upon the necessary measures to be adopted for the purpose of regulating either the value or quantity of the currency, all these elements must equally be taken into consideration, if we would avoid arriving at false conclusions.

Such then being the nature of the currency, what are the rules and regulations necessary for controlling it ?

I have assumed that the first and fundamental principle in our currency is that the pound sterling is our measure of value, and as such should be preserved as free as possible from variation in value; and that the second leading principle in the currency is, that it is the medium of exchange, and as such should possess the power of expansion and contraction, in accordance with the demands of the community, for the purposes of exchange.

The first point, then, for consideration has been, how to preserve the value of the currency, in conformity with the first principle, free from variation: and I have observed that it is liable to vary in value, either from discredit, from excess or deficiency of quantity, or from variation in the value of its standard.

With regard to discredit, we have seen that the credit portion of the currency is by far the most susceptible, as respects this source of variation in value, and that it requires therefore to be regulated by the most tender and skilful hand; that alterations in the rate of interest affect this portion of the currency equally with metal and paper: and that such alterations afford a safe and certain mode of controlling it.

With regard to excess or deficiency of quantity, as affecting value, I have observed that some principle of self-regulation is required, as a *preventive*, against excess or deficiency of quantity interfering with value: that forced and sudden variations in

quantity, according to the influx or efflux of bullion, applied as a *corrective* to excess or deficiency, come too late into operation, and are destructive of the two first principles in the currency: and that the only safe and legitimate mode of regulating the quantity of currency, with the view of preventing excess or deficiency, is by means of the rate of interest. I have suggested, therefore, that the rate of interest, at the Bank of England, and all banks of issue, should be fixed at 5 per cent.

With regard to variations in the value of the standard, as affecting the value of the currency, I have observed, that whilst gold is the standard of our currency, the pound sterling must necessarily follow all *permanent* variations in the value of gold: that it is a desideratum to find a mode of relieving the pound sterling from the *temporary* variations to which gold is liable: that with this view it should be the object of the managers of the currency to preserve its value on a level with the average market value of gold, which will be found to coincide with its real value, or that value which is the result of the cost of producing and bringing it to market: and that in fact, gold at its real value which is comparatively fixed, not gold at its market value, which is ever varying, should be the standard of our currency.

It has been shown, that the proposed plan, of assimilating the working of our currency to the action of a currency purely metallic, is incompatible

with any such improvement, as a metallic currency must necessarily vary with every variation in the market price of metal, thereby destroying the principle of steadiness of value as a measure of value : and it has been suggested, that a simple and practical mode of neutralizing the effects upon the currency of temporary variations in the value of the standard, and of preserving the pound sterling as nearly as possible on a level with the average value of gold, would be ; first, by allowing gold to flow freely in and out of the country, as far as it can be provided, leaving the quantity of currency unaffected by the operation, and strengthening the power of the Bank or Banks to meet extraordinary demands upon them, either by increasing their reserves of gold, or by allowing the occasional introduction of notes under £5 in aid of their ordinary reserves ; secondly, by causing the value of the currency to follow the fluctuations in the market value of gold, at a certain reasonable distance, thereby allowing time for all variations in the value of gold, not of a permanent nature, to subside. With the view therefore of carrying this object into effect, it has been suggested, as an exception to the rule which would fix the rate of interest upon issues of currency at five per cent., that in the event of continued adverse, or favourable exchange, to the extent of one half per cent., for two successive years, liberty be given to the banks of issue to raise their rate of interest gradually to six per cent., or to

lower it gradually to four per cent., as long as the derangement of the exchange should so continue.

Such are the suggestions which have been made, with the view of preserving the currency as free as possible from variation in value.

The second point for consideration has been, how to provide the means of expansion and contraction of the currency in accordance with the demands of the public, without interfering with its value : and it has been shown that the system which would cause the " paper circulation to vary precisely as the amount of the circulation would have varied had it been exclusively metallic," is incompatible with this leading principle in the currency. Moreover that such a system is vicious in its mode of action, inasmuch as it would force issues, when contraction should take place, and withdraw them at the moment when most required.

On the other hand, I have endeavoured to show, that no increase or diminution of quantity of currency, when supplied in strict accordance with the demands of the community, *the rate of interest remaining unaltered*, can have any effect upon prices or the value of the currency ; and that it is *forced* increase or diminution only, contrary to the demands of the public, either directly, or indirectly by means of excessive rates of interest either high or low, that affect prices, and interfere with the value of the currency ; also that the safest and most legitimate

mode of regulating the quantity, as well as the value of the currency, is by fixing the rate of interest at the Bank of England, and all banks of issue, at five per cent.

As additional arguments against the doctrine of those who would regulate the currency, according to the fluctuations of bullion at the Bank, and according to the indications of the exchanges, I have observed :—

1st. That a slight variation in the value of gold abroad, may cause a considerable variation in the quantity of gold at the Bank, and that by varying the quantity of currency in exact accordance with the fluctuations in quantity at the Bank, the value of the currency may be caused to vary in a greater degree than the value of gold itself.

2d. That though the exchanges are the proper test of the value of the currency of one country compared with that of any other, when taken over a series of years, yet being themselves liable to temporary and local influences, they are by no means a sure test at any particular moment.

But if, according to the first principle in the currency, its value is not to be raised or depressed at pleasure, by forcibly increasing or diminishing its quantity ; and, according to the second principle, it is to be supplied at all times in proportion to the demands of the public ; what is to become of the principle of convertibility of notes into specie, in

times when the demand is more than usually intense? a principle which some contend should be preserved at all times, and under all circumstances.

With regard to this point, I have endeavoured to show, that when the currency is not unsound in itself, from excess or deficiency in quantity, the principle of convertibility may be suspended in cases of emergency, without danger to the value of the currency: and, that in some cases, the enforcement of the principle of convertibility is destructive both of the steadiness of value of the currency, and its power of adapting itself in quantity to the wants of the public, and ought therefore to be abandoned.

Lastly, if the principle of convertibility may be occasionally suspended, and specie suffered to be withdrawn from the country, and at the same time the value of the currency must not be raised for the purpose of producing a voluntary return of the metal; how are the coffers of the Bank to be supplied from time to time with gold, for the purpose of exchange of notes into specie in ordinary times? I have endeavoured, therefore, to show that it would be reasonable and just to leave this matter entirely to the Bank, to arrange as might seem best to itself, and that the expenses of providing the necessary supplies of bullion should fall upon it.

1st.—Because it is just that the expense of providing bullion should be paid out of the first

profits derived from the substitution of paper for bullion.

- 2d.—Because the expense of purchase, under the system proposed, would be less than the expense now incurred by retaining a quantity of specie which never comes into use.

With the view, then, of carrying into effect these principles and suggestions, the following plan is proposed for the future regulation of the currency of this part of the kingdom. For the purpose of explanation, it is assumed that the whole paper circulation of England and Wales is, on the average, £30,000,000, and, under the management of a single bank of issue, or of several banks acting together upon the same principles.

PLAN.

- 1st.—That £15,000,000 of notes, or one half the average amount of the paper circulation of England and Wales, be permanently maintained in circulation, either by loan to Government or the public, upon mortgage or any other permanent investment.
- 2d.—That all issues of notes by *purchase* of stock or merchandize, excepting only bullion, beyond the amount of £15,000,000, be prohibited.
- 3d.—That all further issues of notes be made, either by exchange of notes for coin or purchase of bullion, to such extent as may be thought

fit by the bank or banks, or upon discounts and loans for short periods.

4th.—That all loans and discounts at the bank or banks, by which the paper circulation shall be increased beyond £15,000,000 be terminable at furthest in 60 days.

5th.—That the rate of interest upon such loans and discounts, be fixed at 5 per cent., except as hereafter provided.

6th.—That upon these terms, the public shall have the power of claiming advances upon India-bonds, Exchequer-bills, and all other government securities, at any time, and to any amount.

7th.—That the bank or banks of issue be at liberty at any time, under certain penalties, to issue £2 and £3 notes in aid of their reserves of specie.

8th.—That, under further penalties, £1, £2, and £3 notes be declared legal tender at the bank or banks of issue.

9th.—That after the expiration of one year, from the issue of the first £2, or £3 note, during which year the bank or banks shall receive the full profit upon such issues, interest at the rate of 5 per cent. per annum be paid to Government upon all such notes outstanding, calculated day by day, for the first ensuing year, and at the rate of 10 per cent. per annum for any period exceeding two years, till public notice be given calling them in.

10th.—That from the date of the issue of the first

£1 note, interest at the rate of 5 per cent. per annum be paid to Government upon all such issues for the first year, and 10 per cent. for any period exceeding one year, till notice as above.

11th.—That the value of all notes under £5, unredeemed six months after notice calling them in, be carried to the account of Government, till presented for payment.

12th.—That after two years uninterrupted continuance of adverse exchange, with both Paris and Hamburgh, to the extent of $\frac{1}{2}$ per cent., the bank or banks of issue be at liberty, *as long as the exchange so continues*, to raise the rate of interest upon their advances to $5\frac{1}{2}$ per cent. for the first six months, and to 6 per cent. for any period exceeding six months; or after two years uninterrupted favourable exchange to the same extent, to lower their rate of interest upon advances to $4\frac{1}{2}$ per cent. for the first six months, and to 4 per cent. for any period exceeding six months.

SKETCH OF A PLAN FOR A SINGLE BANK OF ISSUE.

It now merely remains to consider, whether the management of the paper circulation, under the above regulations, should be entrusted to a single bank, or left to the discretion of many independent banks of issue.

It is manifest that the above plan, if honestly administered, might be carried into effect, either through

the instrumentality of one bank, or of many. I think, however, that there are sufficient reasons for preferring one.

1st.—All banks are not conducted upon the same principles of prudence and caution ; and, however powerful in point of wealth, there is no amount of capital which will secure a bank from failure, where want of prudence prevails, and where other business besides the simple issue of notes is entered into. A portion, therefore, of the currency under a system of many banks must always be liable to discredit, which is a fundamental evil, unless they should be restricted simply to the issue of notes, which would be inconvenient in the country.

2d.—Where many banks of issue compete with each other, the rivalry between them is liable to prove detrimental to the public. One bank may refuse to give credit to the paper of another, as has been seen with the Bank of England with reference to the joint-stock banks ; retaliation takes place, and the country suffers.

3d.—The convenience of a note current all over the country, instead of local notes merely current in each different county, is sufficient reason in itself for preferring a single bank of issue.

The difficulties in the way of forming a single bank of issue are,

1st.—That the privilege of creating notes is at present in the hands of influential parties, who

have held it for many years: who have been confirmed in the possession of the privilege by the tacit sanction of Parliament: and having gained their position by their activity, wealth, and integrity, have looked upon it as a patrimony to be handed down from father to son. To deprive them, therefore, of this privilege suddenly, and without compensation, would be an act of injustice on the part of Government. Moreover the influence of the body of country bankers in Parliament is so strong, that it would be difficult to carry any measure adverse to their interests and wishes.

2d.—Much of the circulating medium of the country districts is issued, by means of advances to farmers and individuals of small property, whose credit is known to those who have had the management of the local banks, from constant intercourse with them, and who can procure advances upon securities which could never be made palatable to a bank managed at a distance. Such individuals would suffer, by the removal of the power of creating notes from the local banker to the central bank of issue, until the quantity of capital introduced into the local banks of deposit, should again equal the available means so withdrawn. Fresh capital would, no doubt, be supplied in course of time, in place of the means so withdrawn from each district, but the distress in the mean time produced by the calling in of

advances, and the withholding of accommodation might be very great, and the depreciation of property in the country for a time considerable.

With a view, then, of meeting these two difficulties, I would propose that every bank of issue throughout England and Wales, as far as regards its issue of notes, should become interested in a new bank to be formed,* exactly in the proportion that the minimum amount of issues of each, for the last five years, have borne to the minimum issue of the whole country. This arrangement would be just towards the parties who, at present, have the administration of the circulating medium in their hands. In order to prevent inconvenience in the different districts, it might be so arranged, that there should be the power of bringing back again into the local Banks the available means so transferred to the one Bank, if required, by sale of their interest thus created in the central Bank.

For this purpose, I propose, that the whole paper circulation of the country should gradually be paid into the hands of the managers of the central Bank, together with satisfactory securities for the amount, say—

By the Bank of England ..	£ 16,500,000
By Country Banks	8,500,000
	<hr/>
	£ 25,000,000
	<hr/>

* The most convenient position for such a Bank would be under the roof of the Bank of England.

the notes of the new Bank being given in exchange, and that the name of each local Bank be inscribed for capital in the central Bank, to the amount of its lowest issue of notes during the last five years.

Thus a new Bank Stock would be created of £25,000,000, bearing an interest, perhaps, of 3 per cent., and would be saleable in the market, perhaps, at 70 or 80 per cent. Those banks, therefore, which might prefer to make all their means available in their ordinary banking business, would of course convert their stock into money, say at 75 per cent., preventing derangement in the ordinary operations of money in the country to that extent, and to the great advantage of the banker, by enabling him to convert his credit into capital.

This measure, however, would afford relief only to the extent of 75 per cent. of the whole issue of the country banks, that is to say, to the extent of £6,375,000 out of £8,500,000, and 25 per cent. would still remain to be provided. This remaining sum we may presume would be sufficiently provided by means of the branches of the central Bank, which would probably carry off all the higher class of advances, and if not, the gradual introduction of fresh capital into the districts, by joint-stock banks calling up their instalments, would soon supply the deficiency, without any evil consequence, provided the operation of change were not too rapidly effected.

Banks unable to produce satisfactory security equal to the amount of their notes brought in for

exchange, would of course forfeit their interest in the new Bank to the extent of the deficiency.

By this arrangement each bank might continue to receive the same amount of profit upon issues of paper as at present, and probably more ; for the effect of separating the power of issuing notes from the general business of banking, would be to make a much larger circulation necessary than is now required.

With regard to the capital of the Central Bank, this might either be raised by a call upon the proprietors, or by compelling every bank, including the Bank of England, to retain a share in the new Bank of Issue, in consideration of the above arrangement, in which case no new capital need be called for. The Directors of the Bank might then be chosen from the body of Bankers throughout the country, which, with the addition of a Government Director, and two or three from the body of Merchants, would form a Board preferable to that which now manages our currency.

THE END.